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South Hams Audit Committee

South Hams District Council

Title:	**Agenda**
Date:	**Thursday, 28th October, 2021**
Time:	**2.00 pm**
Venue:	**Repton Room - Follaton House**
Full Members:	***Chairman*** Cllr Austen ***Vice Chairman*** Cllr Spencer *Members:* Cllr Brazil, Cllr McKay, Cllr Pennington, Cllr Rowe, Cllr Taylor
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Committee administrator:	Democratic.Services@swdevon.gov.uk

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD IN THE REPTON ROOM, FOLLATON HOUSE, PLYMOUTH ROAD, TOTNES
ON THURSDAY, 2 SEPTEMBER 2021**

Members in attendance * Denotes attendance ø Denotes apology for absence			
*	Cllr L Austen (Chairman)	*	Cllr R Rowe
*	Cllr J Brazil	*	Cllr B Spencer (Vice-Chairman)
*	Cllr J McKay	*	Cllr B Taylor
ø	Cllr J T Pennington		

Member(s) also in attendance:
Cllr H D Bastone

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Section 151 Officer and Democratic Services Manager

A.7/21 **MINUTES**

The minutes of the Audit Committee meeting held on 1 July 2021 were confirmed as a true and correct record.

A.8/21 **DECLARATIONS OF INTEREST**

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

A.9/21 **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman reminded the Committee that, at its last meeting held on 1 July 2021, there had remained some outstanding questions for the attention of Grant Thornton (the Council's External Auditors) during consideration of the annual Audit Plan (Minute A.3/21 refers).

It was noted that responses had now been received and they were outlined as set out below:

Question 1: 'the Committee reiterated its previously held view that a 27% increase in Audit Fees was excessive. Would the Council therefore receive 27% extra auditor hours on its audit to reflect the increased Fee?

Grant Thornton representatives had subsequently provided the following response:

'*The increase in Fees addresses a number of additional requirements and responsibilities placed on us as auditors. Whilst the Audit Fee does not cover a set number of 'days' as an internal audit contract would and instead covers the cost of delivering the external audit, the increase in costs arise directly as a result of the increased time that is required to compete our external audit. Audits are taking significantly longer to deliver to the required quality standard for a number of reasons and this can be seen quite clearly in the number of audit opinions that were issued by the target date of 30 November 2020 for the 2019/20 and the deterioration in performance over the last few years. This is a direct impact of more work meaning audits take significantly longer to complete which can be seen by the number of audits completed by the target date of the last few years:*

	2016/17	*2017/18*	*2018/19*	*2019/20*	*2020/21*
Draft Accounts	*30 June*	*31 May*	*31 May*	*31 Aug*	*31 July*
Audited Accounts target	*30 Sept*	*31 July*	*31 July*	*30 Nov*	*30 Sept*
% achieving audit target	*95%*	*87%*	*57%*	*45%*	*?*

Our expectation is that the audit will take at least the 27% extra that was quoted to complete and in all likelihood even longer than this.

PSAA (Public Sector Audit Appointments) ultimately will determine the appropriateness of these fees in their statutory role.'

Question 2: '*Do Grant Thornton have the relevant knowledge and expertise in Pensions for the increased work on Pensions in the audit?'*

The Council had since received the following response from Grant Thornton representatives:

'As your external auditors, we possess the relevant experience and qualifications to consider the financial statements and related accounting entries. This also includes the estimates that management include in the financial statements and that you as those charged with Governance oversee. For the pension liability, management conclude that they need external expertise in the form of their actuary in order to calculate the estimate. This calculation is complex and relies on a number of assumptions. The outputs are also dependent upon the information provided to the actuary by the Council and the Pension Fund.

For our audit work, we (the audit team) are able to confirm:

- *The accounting entries are appropriately disclosed and included in the accounts, with reference to the actuary's report;*
- *That the data submitted to the actuary by the Council was appropriate, can be reconciled to payroll systems and is consistent with the payroll information provided to us to support our other testing and with the wider financial statements; and*
- *That the data submitted by the Pension Fund is appropriate (by writing to the Pension Fund auditor and requesting various assurances).*

We are not trained actuaries and therefore the National Audit Office engage Price Waterhouse Coopers (PWC) as an auditor's expert on behalf of all local government auditors. PWC consider the methodologies and assumptions applied by the various Local Government actuaries and provide information and assurance to us as external auditor which we review and consider as part of our work in order to provide us with the expert input on methodology and assumptions.

We are also able to call on other expert advice as and when it is needed, be that from actuaries employed by Grant Thornton or by other organisations. An example of when Grant Thornton did this nationally was 2018/19, the first year that the McCloud ruling had a potential impact on Local Government financial statements. This provided us as auditors with further subject matter expert advice. This would tend to be an exception rather than the norm and would be for one-off events or if the methods and assumptions applied by the actuarial firms and considered on our behalf by PWC.'

A.10/21 **DRAFT STATEMENT OF ACCOUNTS AND DRAFT ANNUAL GOVERNANCE STATEMENT 2020/21**

The Committee considered a report that presented the draft Statement of Accounts and draft Annual Governance Statement for 2020/21

In discussion, the following points were raised:-

(a) In response to a query on the waste contract, the Section 151 Officer advised that greater financial information relating to the contract would be subject to a report to be presented to the Executive meeting to be held on 16 September 2021;

(b) For 2020/21, it was noted that the Council's Council Tax collection rates were 2% above the national average and the Business Rates collection rates (91.74%) were slightly lower than the national average (93%). It was confirmed that this was consistent with the results that were experienced by other Local Authorities across Devon. Given the impact of the COVID-19 Pandemic, the Committee felt that the collection figures were to the great credit of both local residents and local businesses. However, Members did also request that officers consider whether this matter should be included within the Council's Risk Register;

(c) The Committee was advised that the findings of the most recent Staff Survey would be shared with all Members via a future Bulletin edition. In recognition of the importance of staff morale, the Committee also highlighted the reference in the draft Annual Governance Statement to the fact that the annual staff awards event had not been held recently due to the COVID-19 Pandemic. As a consequence, an additional recommendation was **PROPOSED** and **SECONDED** as follows:

'That, given that a staff awards event had not been held since the COVID-19 Pandemic, the Committee ***RECOMMEND*** *that the Senior Leadership Team organise and plan an event to highlight the important role that officers have played in supporting our communities throughout the Pandemic; with the event being ideally held before Christmas and with elected Member input into the event.'*

In discussion, support was expressed for the additional recommendation. However, a Member did make the point that the prizes associated with the event needed to be considered meaningful;

In concluding the debate, the Chairman felt that both the draft Statement of Accounts and the draft Annual Governance Statement had excellently summarised what had been an extraordinary year and the contents of both draft documents were commendable.

It was then:

RESOLVED

1. That the Draft Statement of Accounts and the Draft Annual Governance Statement (AGS) for the financial year ended 31 March 2021 be noted; and

2. That, given that a staff awards event had not been held since the COVID-19 Pandemic, the Committee **RECOMMEND** that the Senior Leadership Team organise and plan an event to highlight the important role that officers have played in supporting our communities throughout the Pandemic; with the event being ideally held before Christmas and with elected Member input into the event.

(Meeting commenced at 2.00 pm and concluded at 3.00 pm)

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Chairman

Grant Thornton

The Audit Findings for South Hams District Council

Year ended 31 March 2021

October 2021

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Agenda Item 5

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Your key Grant Thornton team members are:

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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and are presented to the Audit Committee.

Jackson Murray

Name : Jackson Murray
For Grant Thornton UK LLP
Date : October 2021

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Hams District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

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Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was undertaken remotely from July 2021. Our findings are summarised on pages 5 to 17. Audit adjustments are detailed in Appendix C. We have also raised a recommendation for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete, subject to the satisfactory completion of the following outstanding matters;

- receipt and review of the assurances provided by the Devon Pension Fund auditor; and
- satisfactory completion of internal quality reviews and any subsequent questions.

Once completed, we will be in a position to issue our audit opinion following:

- receipt of the signed management representation letter; and
- review of the final set of signed financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- improving economy, efficiency and effectiveness;
- financial sustainability; and
- governance

We have completed our VFM work, which is summarised on page 19, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

Subject to the outstanding queries on page 3 being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 28 October 2021, as detailed in Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote access working arrangements including remote accessing financial systems, video calling, and additional procedures to verify the completeness and accuracy of information provided remotely.

In addition to the extended time that this has placed on the audit, increased regulatory expectations and focus have meant that both teams have spent significant amounts of time completing the audit for the 2020/21 financial year.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit dated May 2021.

We detail in the table our determination of materiality for South Hams District Council.

	Amount	Qualitative factors considered
Materiality for the financial statements	£905,000	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year and monitors spend against this, therefore gross expenditure was deemed as the most appropriate benchmark. This benchmark was used in the prior year. We deemed that 2% was an appropriate rate to apply to the expenditure benchmark.
Performance materiality	£678,000	The Council does not have a history of significant deficiencies or a large number of misstatements.
Trivial matters	£45,000	Calculated as a percentage of headline materiality and in accordance with auditing standards.
Materiality for senior officer remuneration disclosures	£20,000	The public sensitivity surrounding the disclosure of senior officer pay.

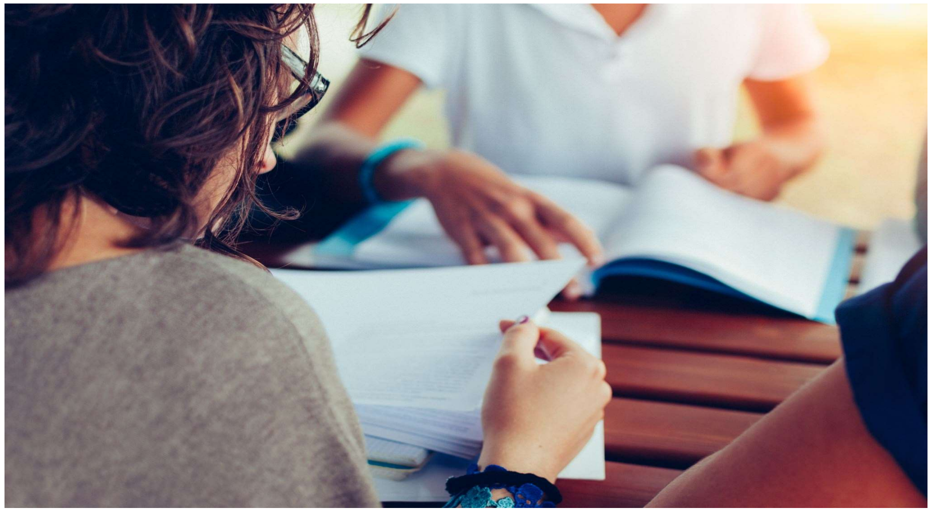
2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Page 11

Risks identified in our Audit Plan	Commentary
Management over-ride of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness; and • confirmed that there we no changes to accounting policies, estimation techniques or significant, unusual transactions. Our review of the controls related to journal postings identified that whilst journals over £25k are subject to retrospective review, the individuals undertaking the review could do this on journals that they had posted. We have raised a control recommendation in Appendix B. Despite this, our sample testing of journals did not identify any significant issues that we need to bring to your attention. Disclosure updates were made in respect of accounting estimates and critical judgements. No issues were identified in respect of these and further information of estimates in respect of land and building valuations, investment property valuations and the valuation of the net defined benefit pension liability can be found later in this report.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	In our Audit Plan we reported that having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we had determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including South Hams District Council, mean that all forms of fraud are seen as unacceptable. Therefore, we did not consider this to be a significant risk for South Hams District Council. We have not identified any reasons for this conclusion to be changed. We set out on page 10 our consideration of the significant grant income that the Council received in year in respect of Covid-19.
Valuation of land and buildings including Investment Properties The Council revalues its land and buildings on a rolling five-yearly basis at 31 December each year, with Investment Properties valued annually on 31 March. These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved (£65.7m for land and buildings and £19.2m for investment properties at 31 March 2020) and the sensitivity of this estimates to changes in key assumptions. Additionally, management will need to ensure the carrying value of land and buildings in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date given a rolling programme is used. We therefore identified valuation of land and buildings and Investment Properties as a significant risk.	We: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation experts; • discussed with the valuers the basis on which the valuations were carried out; • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding; • reviewed the Council's valuers' reports and a sample of the assumptions that underpin the valuations to ensure that they appear to be reasonable; • tested a sample revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year or prior to year end and how management has satisfied themselves that these are not materially different to current value at year end. A detailed assessment of the estimation process, including estimation techniques and assumptions, is described on page 11 of this report. Our audit work identified that for one of the Council's assets, capital additions in year had been doubled counted. This resulted in Property, Plant and Equipment and the Revaluation Reserve in the Balance Sheet both being overstated by £1.2m. More detail can be found on page 25.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of the pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£48.5m in the Council's balance sheet at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

Commentary

We:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated, and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report; and
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

We currently await receipt of assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership, contributions and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Further detail on the valuation process, inputs and assumptions can be found on page 13.

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2. Financial Statements – other areas

This section provides commentary on other areas of audit work undertaken during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020/2021 statements to comply with the requirement of IAS 8 para 31. As a minimum, we expected audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	Disclosures were included in Note 39 of the draft financial statements that noted the deferral of IFRS 16. A minor update was made to the Note to make it clear that it is currently too early to determine the impact that IFRS 16 will have on the financial statements.	We consider that the updated disclosure is appropriate.
Recognition and Presentation of Grant Income The Council received a number of new grants and contributions in year as a result of the Covid-19 pandemic and is required to follow the accounting requirements set out in sections 2.3 and 2.6 of the CIPFA Code. The main considerations are to determine whether the Council is acting as principal or an agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.	The Council undertook detailed reviews of each of the grants received in year in order to determine the appropriate accounting treatment. Significant sums of money were paid out to local organisations in the form of Business Grants, and the Council was required to assess whether these monies should be reflected in the Comprehensive Income and Expenditure Statement (where acting as principal) or whether the year end position should be reflected within the Balance Sheet (where acting as agent).	We undertook separate sample testing of the Council's Covid-19 grant income that was received in year. Our testing confirmed that the Council had treated Covid-19 grants appropriately.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

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Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £66.6m	Other land and buildings comprises £22.2m of specialised assets, such as leisure centres, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£44.3m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged it's internal valuation experts to complete the valuation of properties as at 31/12/2020 on a five yearly cyclical basis, with individually significant assets valued annually. 72% of total assets were revalued during 2020/21. Management place reliance on the work of the valuation experts and review and challenge the work of the valuer when it is reported back to them. The valuation experts are independent from the finance team which ensures that they maintain objectivity when undertaking their valuations. The majority of assets valued in year related to car parks. Car parks are valued using a three year average of the income that has been generated by the relevant site, with a yield applied as part of the calculation in order to determine an appropriate valuation. This approach is a standard valuation methodology for this type of asset. The valuer considers yields adopted by other Local Authorities when undertaking this work to ensure that their assumptions remain appropriate. Individually significant assets valued in year included leisure centres, and the valuer makes use of Sport England cost guidance when undertaking these valuations which provide the latest cost benchmarks to apply as part of the valuations. Again, this is a standard dataset that we would expect to see being used.	We assessed management's expert and found them to be competent, capable and objective. We corroborated the completeness and accuracy of underlying data used in the valuations, such as car park income, to source data. We challenged and corroborated key assumptions adopted within a sample of valuations, considering their relevance when compared to alternatives, including those used by close neighbours. We did not identify any significant changes in valuation method in year, nor did we identify any significant assumptions in respect of alternative site assumptions for DRC valuations. As part of our testing methodology we formed an expectation of value using information provided to auditors by Gerald Eve. This allowed us to test a sample of assets covering valuations that were in line with our expectations and those that lay outside of expectation. We also used this information to form an expectation of the value of assets not formally valued in year, and to project the valuation of those assets valued at 31 December 2020 to the Balance Sheet date (31 March 2021). We were satisfied that no material difference arose between our expected value and the carrying value recorded in the financial statements. Our work allowed us to conclude that the valuation of land and buildings was materially accurate. We also considered that the disclosures in the financial statements were appropriate. As previously noted, we identified that for the Ivybridge Depot asset, capital additions were factored into the 2020 valuation but were double counted as they were added on top of this valuation in the fixed asset register and draft statement of accounts. A reduction of £1.2m was made to correct for this error, with an updated land and buildings value at the Balance Sheet date of £66.6m. Our approach was undertaken with regard to the revised ISA540 requirements, and included deepened risk assessment and more detailed consideration of management bias in determining the estimate.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – continued		The draft financial statements included a disclosure that stated that the valuer had noted a material valuation uncertainty. Upon checking with the valuer and their report, we confirmed that this disclosure was not required for 2020/21. This was in line with the updated RICS guidance issued in year. Management removed the disclosures which had been added to the prior year financial statements and incorrectly rolled forward.	
Investment Property valuations – £18.6m	The Council holds two investment properties, which under the requirements of the CIPFA Code are required to be valued at fair value annually at the Balance Sheet date. The Council has engaged an external valuer to complete the valuation of properties at 31 March 2021, with both investment properties valued this year. Management place reliance on the work of the valuation experts and review and challenge the work of the valuer when it is reported back to them. As external valuers, this provides additional assurance to management over the valuations, and the valuation report includes details of comparable properties that have been considered as part of the valuation to provide direct evidence of market alternatives. As well as comparable sales evidence as referred above, the valuation methodology inputs include rental income and lease terms as well as relevant market yield assumptions. The total year end valuation of land and buildings was £18.6m, a net decrease of £0.6m from 2019/20 (£19.2m).	We assessed management's expert and found them to be competent, capable and objective. We corroborated the completeness and accuracy of underlying data used in the valuations, such as lease income and terms, to the source lease agreements. We challenged and corroborated the key yield assumptions adopted within the valuations, considering their relevance when compared to alternatives provided by the external valuer and other market comparables. We did not identify any significant changes in valuation method or assumptions in year. Our work allowed us to conclude that the valuation of investment properties was appropriate, as were the related disclosures in the financial statements.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £61.4m	The Council's net pension liability at 31 March 2021 is £61.4m (PY £48.5m) comprising the Devon Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 31/03/2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £10.5m net actuarial remeasurement during 2020/21.	With the use of the consulting actuary as an auditor's expert, we have confirmed that management's actuary are competent, capable and objective. We considered that the significant risk in respect of pension fund valuation related to the assumptions used in the calculation, rather than the methodology used with is standard and in accordance with the requirements of the CIPFA Code and accounting standards. We make use of the consulting actuary (PWC) to assess the reasonableness of the assumptions adopted and set out below our consideration of these assumptions.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2%	1.95-2.05%	●
Pension increase rate	2.8%	2.80-2.85%	●
Salary growth	3.8%	3.80-3.85%	●
Life expectancy – Males currently aged 45 / 65	24.0 / 22.6	21.9-24.4/20.5-23.1	●
Life expectancy – Females currently aged 45 / 65	25.4 / 23.9	24.8-26.4/23.3-25.0	●

Our work includes procedures to ensure the completeness and accuracy of the underlying information used to determine the estimate. We review the data provided by the Council and the Pension Fund and corroborate this to supporting payroll data used elsewhere in our audit procedures. We also obtain assurances from the auditor of the Devon pension Fund over the processes and controls in place, and we currently awaiting these assurances.

We did not identify any changes to valuation method and our audit procedures on the reasonableness of the Council's share of LGPS pension assets did not identify any issues.

Through our procedures, we were satisfied that the estimate was reasonable and that the disclosures within the financial statements were adequate, subject to the satisfactory receipt of assurances from the Pension Fund auditor.

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £1.6m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management use an external organisation, LG Futures, to calculate the level of provision required for the 2017 appeals list after management make an initial estimate of 4.6% of net rates payable. The 4.6% is in line with the Government's assessment of provision when the list came in to effect. LG Futures then use their market intelligence and specific knowledge of appeals trends etc to update the provision value. For previous appeals lists (e.g. 2010) management use the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	We considered that the methodology applied by management was appropriate, and in line with our expectations from review of this estimate at other Local Authorities. We did not identify any changes to the methodology from prior years. We considered that the estimate was reasonable and that the disclosure in the financial statements was appropriate.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious
Minimum Revenue Provision - £344k	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The Council calculate the MRP charge in accordance with the stated policy in the Treasury Management Strategy approved by members prior to the beginning of the financial year, using the asset life method as is allowed under the regulations.	We reperformed the MRP calculations to confirm that they were accurate, and also confirmed that they had been calculated in accordance with the Council's stated policy. No issues were noted. In considering the prudence of the MRP charge, we benchmarked the Council's MRP charge as a percentage of it Capital Financing Requirement. The 2020/21 MRP charge was rated as green as it was above 2% of the CFR at 2.65%. We also considered the level of debt held by the Council as a percentage of it's Capital Financing Requirement. This could identify borrowing that was being used to support revenue spend, for example. Whilst the Council was rated red for this indicator, as it's level of debt is higher than the underlying need to borrow per the Capital Financing Requirement, we were satisfied that the Council was not borrowing in order to support the revenue position. From discussion with management, we confirmed that the Council had taken out borrowing for capital investment early, upon the advice of it's treasury advisors, given the favourable interest rates prevailing at the time. This borrowing is being used to fund the Dartmouth Health and Wellbeing Hub, with construction beginning in 2021/22. This construction and related capital spend will increase the Capital Financing Requirement in future years and hence should move the benchmark in line with expectations in the next year.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

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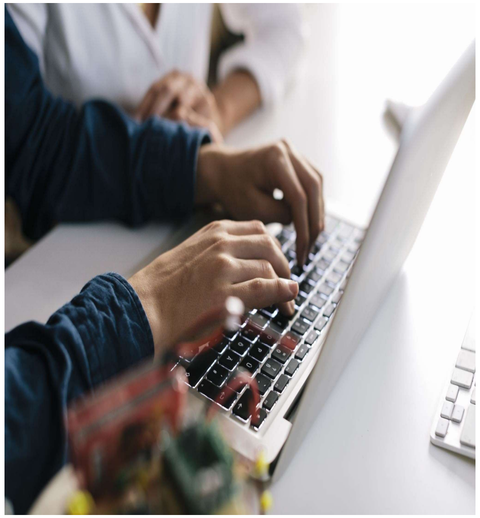


Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee and have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council which is included in the Audit Committee papers.
Confirmation requests from third parties	We requested permission from management to send confirmation requests to the Council's bank and treasury counterparties, including loans and investments. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Disclosure adjustments identified throughout our audit are set out in Appendix C.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided. We note that it took a significant amount of time for management to provide us with a detailed transaction listing of all transactions recorded in the ledger in the financial year, and as a result our sampling in certain areas was delayed. Our experience at other Local Authorities is that this information is normally much easier to obtain, usually from standard system reports. Management had to undertake significant manual intervention to provide the listing to us, and whilst we undertook procedures to confirm that the listing was complete, this delayed the audit in some areas and also caused significant workloads for Council officers whilst also requiring additional audit procedures that we would not normally expect to have to undertake. We would recommend that the Council discuss this with their system provider and / or other Local Authorities using the same ledger software to identify a more efficient method of producing this information.

2. Financial Statements - other communication requirements

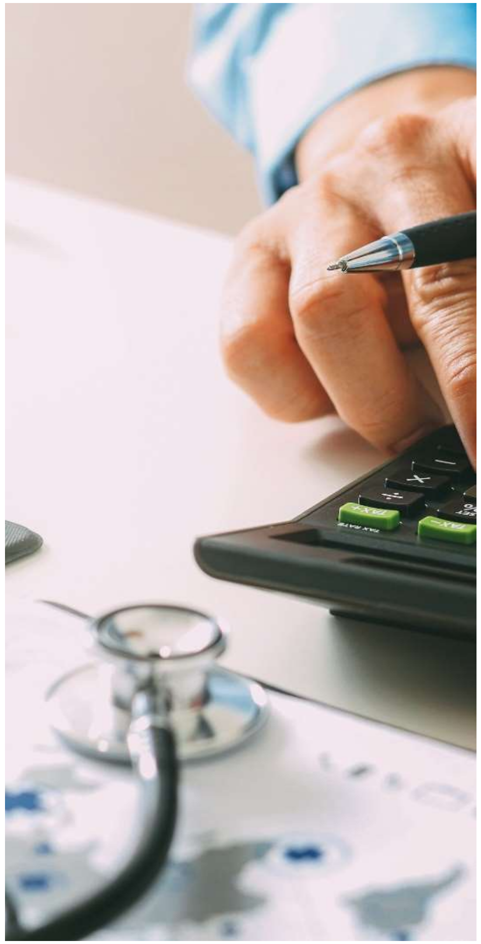
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities; and • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates; • the Council's financial reporting framework; • the Council's system of internal control for identifying events or conditions relevant to going concern; and • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified; and • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit; • if we have applied any of our statutory powers or duties; and/or • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters following some minor disclosure updates made to the draft versions.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the National Audit Office (NAO)) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. The NAO has yet to issue this guidance or the Data Collection Tool to allow the Council to complete it's return. It is not expected that this will be released until December 2021 at the earliest. As a result, we will hold the audit certificate until we are able to understand and complete the 2020/21 audit requirements in respect of WGA.
Certification of the closure of the audit	We cannot certify the closure of the 2020/21 audit of South Hams District Council in the audit report until we have completed our WGA work, as noted above. As such, we intend to hold the audit certificate until such time that the WGA work can be completed and reported to the NAO, as detailed in Appendix E.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- a new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- more extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Assessing performance and identifying areas for improvement	We: • considered what strategic objectives were in place for 2020/21; • assessed how the Council assessed performance against these; • considered the formal and informal performance reporting undertaken during the year and provided to members, directors and the senior leadership team; and • assessed what corrective action was undertaken to address under-performance.	Following our procedures, we concluded that no significant weakness arose as the Council reported performance on an ad-hoc basis to the Executive, maintained an overview of its operational performance through its Incident Management Team and held informal member briefings throughout the year. Whilst we recognise that the Council is in the process of developing a performance management framework which will be linked to its new corporate plan, we have issued an improvement recommendation to ensure arrangements continue to progress in 2021/22.	Improvement recommendation The Council should introduce a performance management framework based upon SMART strategic objectives to ensure delivery of its new corporate plan. This should include monitoring the performance of its strategic partnerships.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk).

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Proposed fee	Threats identified	Safeguards
Audit related			
Agreed Upon Procedures on the Council's Housing Benefit subsidy claim	£10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the proposed fee for this work is £10,000 in comparison to the total proposed fee for the audit of £54,271 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Action plan – Audit of Financial Statements

We have identified the following recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	As noted earlier in our report, there is significant manual intervention required by management to system reports in order to produce transaction level reports that reconcile to the Trial Balance and accounts. Management have to manually adjust for reversing accruals due to the way that the system is configured. Whilst adding significant time to the audit process for both parties, this also introduces a risk that adjustments are not correctly actioned that could lead to omissions or errors.	We recommend that management review the system reporting capabilities to make the reversal process automatic and remove the need for manual intervention. Management response This is something we are very conscious of and the Head of Finance has identified it as a key piece of work before we close the 2021/22 Accounts. We are intending to approach Civica, our software provider as well as other Councils to see how they approach the running of these transactional listings.

B. Follow up of prior year recommendations

We identified the following issues in the audit of South Hams District Council's 2019/20 financial statements, which resulted in five recommendations being reported in our 2019/20 Audit Findings report.

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	Management have a review process whereby journals over £25k are reviewed by a second individual, a Finance Business Partner. Our review of the Council's journals and the reports used to identify those journals which require review identified the journal date selection criteria set up for the generation of the monthly review reports resulted in certain journals over £25k being omitted from the report and hence being unreviewed in months 1-3. Journals represent a risk of management override of controls and sufficient controls should be in place in order to identify fraud or error. We recommended the Council should ensure that the reports used to highlight journals for review identify all journals over £25k. Management and Those Charged With Governance should also note the risk of unreviewed journals below £25k.	Whilst the reports were updated and we did not identify any omitted journals, we did identify that a Finance Business Partner had reviewed a journal that they had posted, meaning that there was no segregation of duties in this control. We would recommend that management ensure that the individual undertaking the retrospective authorisation is not reviewing their own journal postings. Management and Those Charged With Governance should continue to note the risk of unreviewed journals below £25k.
✓	The Council's income and expenditure sub-systems (e.g. car parking fines system, Salcombe harbour balances) operate in real-time, in that they give a point in time position of balances. For audit purposes it proved difficult to recreate the year-end balances for our testing purposes. We recommended that the Council needs to retain the details of debtors and creditors outstanding at the year-end to provide a trail that demonstrates who owes the Council and how collectible that might be, and what creditors were outstanding at year end.	The Council retained copies of year-end balances and reports to enable audit testing of these post year end.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The bank reconciliation is unbalanced by £1k, this results from an historic reconciling item arising from a change in software systems That should have been written off in previous years. We recommended that the Council should ensure that the historical amount is written off and that future bank reconciliations can be fully reconciled.	Whilst our bank reconciliation could be fully reconciled, we noted that the historical reconciling item remained on the Council's year end bank reconciliation which dates from the implementation of the current cash receipting system. We have seen evidence that historical balances were written off in August 2021.
✓	We noted that the Annual Governance Statement makes no reference to: • governance arrangements within partnerships and joint working; • the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014); • GDPR; or • IT systems and controls. We recommended that the Council's reporting of it's governance arrangements would be enhanced if these areas were given prominence in the Annual Governance statement.	The original draft AGS included updates in the areas mentioned, with the exception of reference to the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014). The Council updated the AGS to include explicit reference in respect of this in the final version.
✓	Overall, as the reserves position shows that South Hams District Council has robust procedures to set, monitor and deliver its financial plans. The Council has a good level of reserves to meet those plans. However, the plans do set out a number of financial challenges that could adversely impact on the Council's ability to continue to deliver services or to maintain financial stability. We recommended that the Council will need to continue its close scrutiny and stewardship to ensure it can continue to deliver its services.	See separate consideration of financial sustainability in the separate Auditor's Annual Report.

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We have previously noted IT audit findings and the latest confirmation from the Head of IT Practice confirms that implementation of these recommendations continues.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000
In processing the valuation adjustments in 2020/21, due to the order in which the valuations were processed, additions in respect of the Ivybridge Depot were incorrectly double counted into the valuation. When our testing identified this, the Council reversed this entry and the corresponding increase that had originally gone to the Revaluation Reserve.	Dr Surplus on revaluation of Property, Plant and Equipment £1,229k	Cr Property, Plant and Equipment £1,229k Dr Revaluation Reserve £1,229k

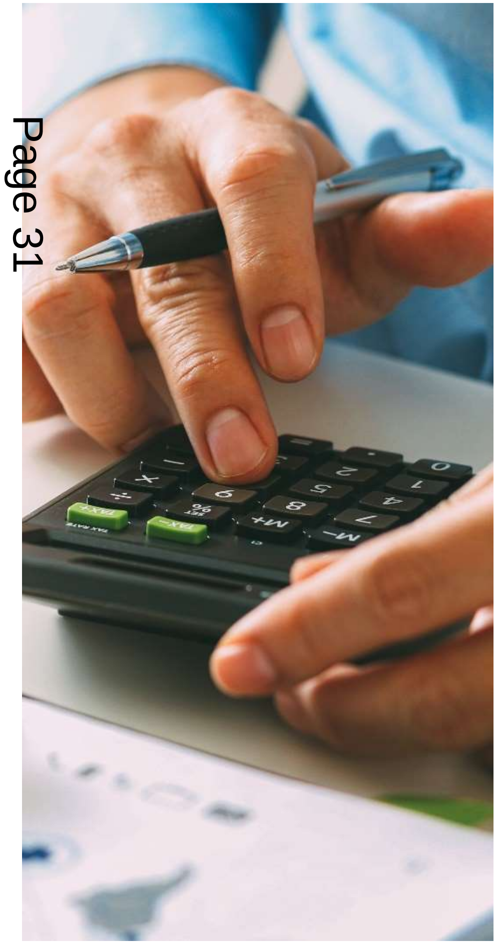
C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Adjusted?
Classification error identified in the Cash Flow Statement with £1,614k moved to 'Operating Activities' from 'Financing Activities'.	✓
Our review of the Council's financial instruments notes identified that the accumulated absences (staff leave) accrual had been included in 'creditors' as a financial instrument. As no future payment of this item will be made (the Council has already made the payment in the form of salary to the individual), this does not meet the definition of a financial instrument. £148k was therefore removed from the financial liabilities total.	✓
Note 16 was incorrectly stated due to an error in the underlying working paper. Total debtors for local taxation were stated as £928k, and were corrected to be £873k.	✓
Disclosures stating that a material valuation uncertainty was applied to the valuation of land and buildings and investment properties were removed as neither valuer included these in their valuation reports for 2020/21. The disclosures were erroneously included following the disclosures in 2019/20.	✓
A number of other minor disclosure related adjustments were made to improve the clarity of disclosures or to ensure their compliance with accounting standards or CIPFA Code requirements. None of these adjustments were significant enough on their own to warrant individual reporting.	✓

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position
As we have reported in previous years, the Council's investments with CCLA are designated as Fair Value through Other Comprehensive Income (FVOCI). The terms of the agreement allow redemption on demand and in our view the investment does not therefore meet the designation criteria to be held as FVOCI under IFRS 9. At 31 March 2021 the CCLA investments total £3.28m. In our view the investment should be classified as Fair Value Through Profit and Loss. The cumulative write down in value of £0.2m has been incorrectly charged to Other Comprehensive Income rather than the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. There is currently a temporary Statutory Override in place that allows Fair Value movements to be reversed to an unusable reserve so there would continue to be no impact on the General Fund of this reclassification.	<u>In year</u> Dr Other Comprehensive Income and Expenditure £141k Cr (Surplus) or Deficit on Provision of Services £141k <u>Cumulative</u> Cr Other Comprehensive Income and Expenditure £220k Dr (Surplus) or Deficit on Provision of Services £220k	No change to total usable or unusable reserves

D. Fees

We confirm below our fees charged for the audit and the provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit (excluding VAT)	£54,271	TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Agreed upon procedures in respect of the Council's Housing Benefit subsidy claim (excluding VAT)	£10,000	TBC*

*work on the 2020/21 subsidy claim has yet to begin, the final fee will be confirmed to the Audit Committee following the completion of the work anticipated for early 2022.

E. Audit opinion

Our draft audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report.

DRAFT Independent auditor's report to the members of South Hams District Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of South Hams District Council (the 'Authority') for the year ended 31 March 2021, which comprise the Comprehensive Income & Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

• give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;

• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and

• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Corporate Director of Strategic Finance (Section 151 Officer) use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Corporate Director of Strategic Finance (Section 151 Officer) conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Corporate Director of Strategic Finance (Section 151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Corporate Director of Strategic Finance (Section 151 Officer) with respect to going concern are described in the 'Responsibilities of the Authority, the Corporate Director of Strategic Finance (Section 151 Officer) and Those Charged with Governance for the financial statements' section of this report.

E. Audit opinion

Other information

The Corporate Director of Strategic Finance (Section 151 Officer) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Corporate Director of Strategic Finance (Section 151 Officer) and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities for the statement of accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Strategic Finance (Section 151 Officer). The Corporate Director of Strategic Finance (Section 151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Corporate Director of Strategic Finance (Section 151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporate Director of Strategic Finance (Section 151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

E. Audit opinion

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.

• We enquired of senior officers and the Audit Committee concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

• We enquired of senior officers and the Audit Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

• We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- journal entries posted during and post year-end; and

- the significant accounting estimates in the financial statements, including those related to the valuation of property, plant and equipment, the net pensions liability and significant year-end accruals.

• Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Corporate Director of Strategic Finance (Section 151 Officer) has in place to prevent and detect fraud;

- journal entry testing, with a focus on large and unusual postings;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of land and buildings, investment property and the defined benefit pensions liability; and

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property and defined benefit pensions liability valuations.

• Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

E. Audit opinion

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;

- knowledge of the local government sector; and

- understanding of the legal and regulatory requirements specific to the Authority including:

- the provisions of the applicable legislation;

- guidance issued by CIPFA, LASAAC and SOLACE; and

- the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement; and

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in respect of the above matter

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

• Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;

• Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

• Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for South Hams District Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

E. Audit opinion

We are satisfied that this work does not have a material effect on the financial statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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Grant Thornton

Auditor's Annual Report on South Hams District Council

2020-21

20 October 2021

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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Executive summary

Value for money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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2020/21 was an unprecedented year in which the Council has operated with the majority of its staff home working whilst supporting local businesses and residents through the pandemic. The Council has issued £65m in business and community grants and had effective governance arrangements in place to monitor the operational impact of Covid-19 on services which enabled timely and responsive actions to be taken.

Criteria	Risk assessment	Finding
Improving economy, efficiency and effectiveness	Risk identified because of limited performance reporting to elected members.	No significant weaknesses in arrangements identified, but improvement recommendations made.
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made.
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but an improvement recommendation made.

Key

	No significant weaknesses in arrangements identified.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weakness in arrangements identified and key recommendation made.

Improving economy, efficiency and effectiveness

In our initial planning we identified that the Council had not formally reported its service performance to elected members in 2020/21. Due to this lack of formal performance reporting, we reported this risk of significant weakness to the Council's Audit Committee in our Audit Plan on 1 July 2021.

We have undertaken further work in this area and we do not consider this to be a significant weakness as the Council has reported performance on an ad hoc basis to the Executive, maintained an overview of its operational performance through its Incident Management Team and held informal member briefings throughout the year. Whilst we recognise that the Council is in the process of developing a performance management framework which will be linked to its new corporate plan, we have issued an improvement recommendation to ensure arrangements continue to progress in 2021/22.

Governance

Overall, we found no evidence of significant weaknesses in the Council's governance arrangements for ensuring that it made informed decisions and properly managed its risks. The Council introduced an Incident Management Team which enabled it to effectively mange and respond to issues as they arose. We have identified opportunities for improvement, recommending that the Council improve its performance reporting on slippage of its capital programme project by project.

Financial sustainability

The Council has a good track record of sound financial management and delivered an underspend of £122,000 in year, after taking into account central government funding and the Council agreeing to amend its 2020/21 budget. The Council understood the financial risks which it faced and managed these risks by maintaining an appropriate level of reserves. Overall we are satisfied that the Council had appropriate arrangements in place to manage the risks it faced in respect of its financial resilience. We have not identified any risks of significant weakness, but have identified an opportunity for improvement and recommend that the Council should re-instate reporting progress against its savings plans to the Executive within the quarterly budget monitoring reports.

Opinion on the financial statements

We propose to give an unqualified opinion on the Council's financial statements following the Audit Committee on 28 October 2021 and their subsequent approval.

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

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Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 6 to 22. Further detail on how we approached our work is included in Appendix B. The range of recommendations that external auditors can make is explained in Appendix D.

Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement;
- evaluates the services it provides to assess performance and identify areas for improvement;
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve; and
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance management

The Council agreed its current corporate plan in 2018, based on a number of themes and strategic objectives to be achieved by 2023. During the early phases of the pandemic the Council focussed on responding and aligning its resources to the immediate and emerging needs of its communities. In recognition of the wide-ranging and long lasting impacts of the pandemic the Council then began to look at the process of recovery and renewal. The Council developed and adopted a 'Recovery and Renewal' plan to address short and medium term issues. This recovering planning, and the changing landscape within which the Council was now operating, then led to a commitment to develop a new corporate strategy, 'Better Lives for All', that focussed on the needs of our communities post pandemic. The Council is in the process of agreeing this new corporate plan and the performance management framework in which it will operate.

We identified that for 2020/21 the Council did not have strategic objectives linked to its 2018 Corporate Plan or have milestones to enable progress against its strategic objectives to be measured on an annual basis. In previous years the Council reported service performance to its Overview and Scrutiny Committee on a quarterly basis, this was suspended in 2020/21 as staff and resources were deployed elsewhere (such as administration of business grants) as the Council made the understandable decision to focus on operational delivery and meeting the needs of its local business and residential community during the Covid-19 pandemic.

The Council's Overview and Scrutiny Committee has responsibility for scrutinising performance across all services, except for the planning service which is the responsibility of the Development Management Committee.

Although the Overview and Scrutiny Committee did not receive any overarching corporate performance monitoring reports in 2020/21, it did receive the following specific service performance reports on an ad hoc basis:

- ICT (information and communications technology)
- waste
- leisure.

Performance for the planning service was reported on three occasions to the Development Management Committee in 2020/21.

Informal meetings with lead elected members have occurred since April 2020. These meetings have been led by the Business Managers and the Service Performance Manager, with the focus on the Council's performance management system (Pentana) and other relevant performance issues. Joint meetings have also been held with elected members from West Devon where joint issues/service provision lends itself to such meetings.

Members also have access to a variety of portals which enable direct access to performance information in real time.

The establishment of the Incident Management Team (IMT) to manage the operational pressures of the Council has ensured that operational service performance was monitored and reported on a daily basis to begin with, then on a bi-weekly basis throughout the year. This approach ensured that any service performance would have been detected and reported to the IMT, then the Senior Leadership Team and finally the Leader of the Council on almost a real time basis. This approach enabled any issues to be identified and addressed in a very short time frame. This governance framework is explained in more detail on page 22.

Although corporate performance reporting was not operating as it had in previous years, the remaining mechanisms did enable poor performance to be identified and acted upon. A key example of this was the Council's waste service. Following the appointment of a new waste provider a new recycling service should have been introduced. This was not achieved and the service performance has deteriorated.

The waste service continues to be an issue, but there is evidence that the Council has kept elected members informed and has worked to resolve the issue.

Other service areas have struggled to maintain previous performance levels, such as the planning service and delivery of IT projects. This has been as a result of a range of factors, such as increased demand (planning) and a lack of capacity as staff were deployed elsewhere, but due to the operational performance management arrangements put in place the Council has been aware of these issues.

Financial performance monitoring (revenue) was enhanced during the year and was reported at month two, three, seven and ten to the Executive. The Council is unusual in that it does not report the year end/outturn position in a standalone report to the Executive. Instead, the Council provides a detailed forecast outturn at month ten and the full year financial position is confirmed and provided to all members in the draft statement of accounts, which is presented to the Audit Committee. In our view, although this is different to what we see at other Local Government organisations, it still enables elected members to scrutinise and challenge the Council's financial performance which is the intention of such reporting.

Auditor judgement

In our initial planning we identified that the Council had not formally reported its service performance to elected members in 2020/21. Due to this lack of formal performance reporting, we reported this risk of significant weakness to the Council's Audit Committee in our Audit Plan on 1 July 2021.

We have undertaken further work in this area and we do not consider this to be a significant weakness as the Council has reported performance on an ad hoc basis to the Executive, maintained an overview of its operational performance through its IMT and held informal elected member briefings. Whilst we recognise that the Council is in the process of developing a performance management framework which will be linked to its new corporate plan, we have issued an improvement recommendation to ensure arrangements are improved in 2021/22. This recommendation can be found on page 10.

Benchmarking

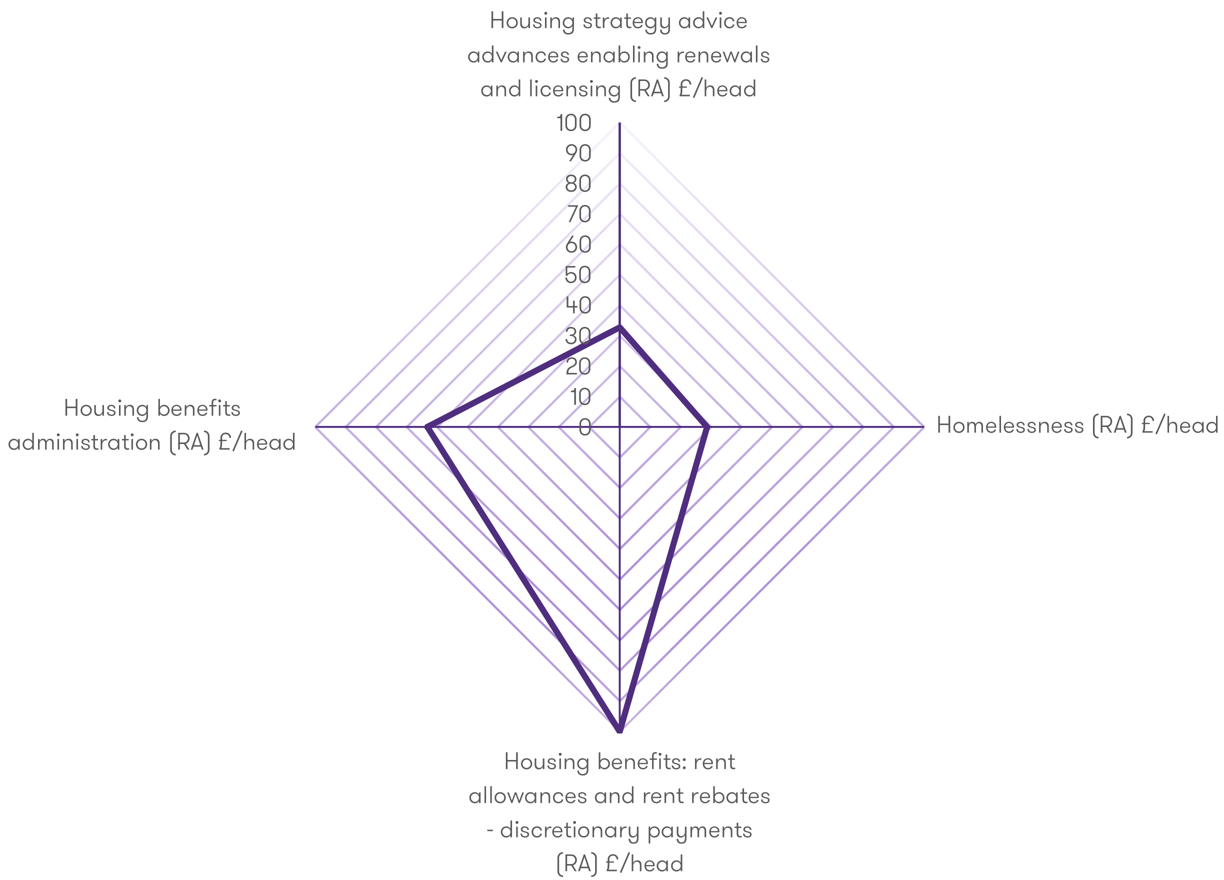
In previous years the Council has used benchmarking to compare itself to others and to identify areas for improvement. However, due to a lack of capacity in 2020/21, limited benchmarking has been undertaken, although the Council did use the LG Inform. As part of our review we discussed a range of indicators produced by our management tool ‘CFO Insights’. The indicators compared the units costs for a range of services and identified two areas where the unit costs were high in comparison to other district Councils:

- Environmental and regulatory services per head of population (Waste Services); and
- Total housing services per head of population.

The high unit cost of providing the environmental health service is attributable to the high cost of providing a waste service in a rural setting, and the Council understood the drivers for this.

The reason why the unit cost for the housing services is high is unclear to the Council. The chart opposite suggests that it may be attributable to housing benefit discretionary payments. Although the chart is only able to provide an indication of where costs are high, further exploration of these costs should be beneficial to the Council. The Council has subsequently confirmed that this is attributable to the Council using all its allowance for housing benefit discretionally payments.

Comparison of housing unit costs with all district councils.
On the spider chart below the 50 line represents the group median. The group in this case is all district councils. If a measure is closer to the outside of the chart it would be classed as 'very high cost', whereas if the line is closer to zero, then it would be classed as ‘very low cost’ in comparison to the group.



Data quality

We considered how the Council gained assurance over the accuracy of the information reported to elected members. A review was undertaken by the Council's Internal Audit team which identified that the Council does not have an agreed and consistent approach to ensuring the reliability and consistency of data quality. The decisions as to whether data should be validated was left to the discretion of the individual and / or their manager involved. This review also identified data quality issues in the Council's draft 2019/20 Annual report which was produced during 2020/21.

A range of recommendations have been raised by the internal audit team and as a result we have not raised any improvement recommendations on this issue within this report. The recommendations raised by internal audit were reported to the Council's Audit Committee in February 2021. We do not consider these issues to be a significant weakness, as we have raised an improvement recommendation on the Council's performance management arrangements and although data quality is an area of improvement we consider that this is being addressed through the recommendations raised by internal audit.

Strategic partnerships

A key strategic partner for the Council is West Devon Borough Council as it shares a joint management team and delivers the majority of its services through a shared service. A number of outsourced services are also provided by the same providers to provide greater efficiency, such as the Council's waste and leisure services. The cost share of the Councils' shared service is reviewed annually by the Council's Audit Committee, and amended to take into account any changes in service delivery. The shared service continues to deliver efficient benefits to both Councils, with well established and appropriate ways of working having been developed over the years since its inception.

The Joint Local Plan is an example of a strategic partnership in which the Council is represented and through which it ensures agreed actions are delivered. Arrangements are in place to monitor progress through the Authorities Monitoring Report (AMR) which provides an annual update in the February after the preceding financial year. However, progress has not been reported to elected members during 2020/21. As noted earlier in this report, the Council is in the process of developing a new corporate plan and performance management framework and this should include those partnerships which contribute and key to delivering the Council's new strategic objectives.

Procurement

The Council's 'Devon Districts Procurement Strategy 2019-2022' came into effect in November 2019. It is a shared corporate procurement strategy with all of Devon's District Councils and Exeter City Council. South Hams District Council, West Devon Borough Council and Teignbridge District Council also have a shared procurement service.
The Strategy includes an action plan which covers:

- contract management;
- sustainable procurement;
- engagement with SMEs and Local Businesses; and
- behaving commercially.

Progress according to the strategy should be reviewed quarterly by the Devon District Procurement Group (DDPG). However, this has not taken place and the approach adopted has been to review progress as the strategy is updated. As a result, progress against these actions will not have been reviewed for three years. Consequently, progress has not been reported to elected members, as members are only updated when the Strategy is reviewed and updated. We have raised an improvement recommendation in respect of this matter, see page 11.

As far as we are aware the Council has not made any procurement decisions using its emergency powers and has not retendered or extended any significant contracts during the year.

Improvement recommendations

Improving economy, efficiency and effectiveness

1	**Recommendation**	The Council should introduce a performance management framework based upon SMART strategic objectives to ensure delivery of its new corporate plan. This should include monitoring the performance of its strategic partnerships.
	Why/impact	Existing arrangements did not enable the Council to evaluate progress against its strategic objectives.
	Summary findings	The Council did not have strategic objectives linked to its 2018 Corporate Plan in place for 2020/21 to enable it to report progress to its elected members. The Council has not developed milestones to enable progress against its strategic objectives to be measured on an annual basis. In previous years, the Council has reported service performance to its Overview and Scrutiny Committee on a quarterly basis, however this was suspended in 2020/21 as staff and resources were deployed elsewhere as the Council made the decision to focus on operational delivery and meeting the needs of its local business and residential community during the Covid-19 pandemic.
	Management comment	The Council were in the process of developing thematic delivery plans and objectives for each of the Councils six strategic themes under the 2018 Corporate Plan in January 2020. The onset of the pandemic necessitated the reprioritisation of resources to support response and recovery as detailed on page 6. However, throughout 20/21 the Council continued to deliver all key services which remained aligned to the 2018 Corporate Plan.

The range of recommendations that external auditors can make is explained in Appendix D.

Improvement recommendations

Improving economy, efficiency and effectiveness

2	**Recommendation**	The Council should review progress against the actions set out in the Devon Districts Procurement Strategy on a more regular basis, and at least annually. Progress should also be reported to SLT and elected members, for example either via Overview and Scrutiny Committee or Executive.
	Why/impact	Existing arrangements did not enable the Council to evaluate progress against its strategic objectives.
	Summary findings	Progress according to the strategy should be reviewed quarterly by the Devon District Procurement Group (DDPG). However, this has not taken place and the approach adopted has been to review progress as the strategy is updated. Progress against these actions has not been reviewed for three years. Consequently, progress has not been reported to elected members, as members are only updated when the Strategy is reviewed and updated.
	Management comment	The Corporate Procurement Officer will meet with the Devon Districts Procurement Group on a bi-annual basis to share best practice. The corporate procurement officer will review and report performance against these objectives on a bi-annual basis. The new strategy will be released in 2022.

The range of recommendations that external auditors can make is explained in Appendix D.

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- approaches and carries out its annual budget setting process;
- ensures effectiveness processes and systems are in place to ensure budgetary control;
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- monitors and ensures appropriate standards.

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Monitoring and assessing risk

The Council has arrangements in place to ensure its risks are identified, scored and regularly reviewed. The Council has a Risk and Opportunity Register which was adopted in December 2018 and risks are logged centrally and recorded on its risk register.

Senior Leadership Team (SLT) reviewed the corporate risk log quarterly. It was reviewed once by the Audit Committee in June 2020, due to meetings being cancelled at the start of the pandemic. In a normal year the strategic risk register would have been reviewed twice by the Audit Committee and we deem these arrangements to be appropriate.

The internal audit function at the Council is provided by Devon Audit Partnership, and in year only 70% of its planned audits were completed. This completion rate was significantly lower than previous years and was a direct result of staff being deployed to other areas of the Council as a result of Covid-19. We understand that this did not result in any conflicts of interest during the year. Despite this, Internal Audit were able to complete sufficient work across a range of areas to provide a "Reasonable Assurance" opinion on the adequacy and effectiveness of the Authority's internal control framework.

Whilst no significant weaknesses from a VFM perspective have been identified by internal audit, they did give a "limited assurance" opinion for their review of performance management and data quality. These concerns have been considered in the previous section where we have raised an improvement recommendation on page 10 and identified why we have not raised an improvement recommendation on data quality (page 9).

A counter fraud service is also provided by Devon Audit Partnership. There are eight cases relating to applications for Covid-19 business rate grants by third parties which are under investigation. These eight cases include cases for both the Council and West Devon Borough Council. No other irregularities were noted or reported within 2020/21, and counter fraud actions and services appear to be appropriate.

The Council has a range of policies which set out the standards by which staff must adhere, and the Council sets out the behaviours which are expected of staff, such as the code of conduct, within its Constitution.

Staff are made aware of these standards and requirements during their induction. However, the Council does not have an agreed approach to ensure staff are updated and made aware of their obligations on a regular basis. Such an approach would be beneficial in those areas where there is a low turnover of staff.

Overall we found no evidence of significant weaknesses in the Council's arrangements to manage risk and operate effective internal controls.

Budgetary control in 2020/21

Every budget holder has an accountant and a finance budget partner allocated to them to provide support and to ensure they effectively manage their budget. All budget holders also have access to the general ledger and are actively encouraged to self-serve by accessing budget monitoring information as and when they require it. As a result of these arrangements the approach differs across the budget holders; some will receive monthly budget monitoring reports and more support from the finance department whereas others will access more timely information themselves direct from the general ledger. The finance staff monitor all budgets and will make contact with those budget holders who opt to self serve if their budgets begin to overspend. This approach is taken by the Council as resources are limited so the focus is understandably on key risks, budget size and complexity.

As mentioned in the previous section, financial performance monitoring was enhanced during the year and was reported at month two, three, seven and ten to the Executive. Year-end outturn reports were not produced for the Executive, whilst the end of year position is set out within the draft accounts and presented to the Audit Committee. The year end position was either communicated to individual budget holders by their respective accountants, firstly to ensure all accruals were taken into account and secondly to confirm the final position was as expected, or the budget holder accessed the information themselves from the general ledger to do the same.

Capital budgets were monitored and reported for quarter one, two and three. Again, the outturn position was not reported to the Executive, this is provided in summary format as part of the draft accounts. The total capital spend during 2020/21 was reported in the draft accounts, but not the planned budget for 2020/21. Project boards are in place for individual complex capital projects and the Section 151 Officer would attend these meetings.

The quarterly capital monitoring reports compare the total spend for each project compared against the approved budget for the whole life of the project. They also identify the in-year spend, but not the corresponding profiled budget for the year. The narrative identifies if a project is delayed.

Currently, it is not easy to identify slippage as the budget is not profiled across the life of the project. The reader is reliant on the narrative to identify any slippage.

The capital financing requirement is reported through the treasury management reports which are taken separately to the Audit Committee.

We consider that the reporting on the capital programme to the Executive could be improved to enable elected members to more easily identify the performance of projects, both across the life of the project but also in year.

Amending the 2020/21 budget

The Council's net budget for 2020/21 was £9.41m. Increased budget monitoring and financial control highlighted the financial impact that Covid-19 was having on the Council's finances and the Council agreed an amended budget in September 2020. This budget agreed the measures as set out opposite to the value of £1.3m, on a non-recurring basis to meet the forecast budget shortfall.

It was recognised that the predicted shortfall would change during the year as the level of uncertainty reduced. A Member Budget Workshop was held to consider the options to address the shortfall and the agreed approach is set out in the table opposite. The table illustrates that due to the amount of funding received in year, the Council did not need to reduce its level of unearmarked reserves (and replenish these through the Medium Term Financial Strategy), whilst earmarked reserves were reduced by £630,000. The level of reserves in comparison to other councils is shown on page as shown on pages 18 and 19.

Option	£000	Amount utilised £000
3rd tranche of Covid funding	121	121
New Burdens Grant funding	170	170
Utilise 2019/20 underspend	112	Not used
Transformation 2018 earmarked reserves	30	30
Cease contribution to Follaton Roof and Folloton Lift	80	80
Unearmarked reserves	200	Not used
Earmarked reserves Business Rates Pilot gain	127	127
Cease repairs and maintenance contribution to reserves	80	80
Reserves business rates retention	343	343
Cease contribution to Planning Earmarked Reserves	50	50
Total	1,313	1,001

Informed decision making

The work of the Council's committees is governed by the constitution. The constitution is reviewed annually and was last updated in July 2021 and prior to that in April 2020. The constitution is available on the Council's website and includes the staff and elected members code of conduct.

The Annual Governance Statement sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people.

During the year the Council has made a number of key decisions and has sought third party advice to support effective decision making, for example the approval of the business case for Ivybridge regeneration and the decisions to provide additional funding to the Council's leisure provider.

During our review we identified that the decision making process could be improved by ensuring scrutiny were able to add value to strategic decisions. The Council also recognises that the democratic decision making process could be enhanced, including the role of the Executive and Overview and Scrutiny, and as such agreed changes to its democratic process and constitution in February and March 2021. These changes should improve the effectiveness of scrutiny, and will come into effect in 2021/22.

We found no evidence of significant weaknesses and have not identified any improvement recommendations given the changes already implemented in year.

Monitoring standards

The Council has a range of officers who are responsible for ensuring and monitoring compliance with statutory standards, such as the Monitoring Officer and the Data Protection Officer. A range of policies and standards are in place to ensure compliance, such as codes of conduct, gifts and hospitality and whistle-blowing policies. However, the whistle-blowing policy has not been updated since 2016 and should be reviewed annually to ensure it is complaint with current legislation. We have raised an improvement recommendation to this effect.

We are not aware of any instances where officers or elected members have not complied with the necessary standards. The Council have made us aware that there have been data security breaches during the year, but none of a significant nature.

The Council ensures that appropriate standards and behaviours are maintained through the introduction of an IMPACT framework. It defines the behaviours that all staff across the Council is expected to consistently demonstrate at work. The framework consists of six core behaviours. These behaviours are used to both recruit and assess the performance of staff.

Auditor judgement

Overall, we found no evidence of significant weaknesses in the Council's governance arrangements for ensuring that it made informed decisions and properly managed its risks, and we have identified two improvement recommendations on pages 15 and 16.

Improvement recommendations

Governance

3	**Recommendation**	The Council should improve its performance reporting on its capital programme by clearly reporting spend against profiled budget.
	Why/impact	The capital performance reports should easily enable elected members to assess the performance of each capital project across the life of the project and in year.
	Summary findings	Performance against the capital programme is reported to the Executive, during 2020/21 three performance monitoring reports were provided. These reports identified the total budget for the life of each project, the spend in year, total spend across the life of the project and remaining budget. However, the reader is reliant on the narrative to identify any slippage in year and spend inline with a profiled budget.
	Management comment	Additional columns will be built into future Capital Programme reports that show a profiled Capital Budget for each Financial Year. This will allow 'slippage' on the profiled capital budget to be assessed in detail on a year by year basis. The current Appendix for the Capital Programme already sets out how each Capital Project will be financed. Each year when the Capital Programme is approved, Members also approve the overall financing of the Capital Programme at the February Council meeting, prior to the start of the Financial Year. Overspends are already highlighted to Members as part of the current Capital Programme Monitoring reports. If an overspend is identified, the monitoring report already sets out a recommendation of how the overspend could be financed and mitigating actions. Year end performance at Month 12 is not separately reported to the Executive in addition to the current quarterly monitoring reports. Instead the year end position (Month 12) is reported in the end of year Accounts. Officers will review best practice in terms of reporting of the Capital Programme to identify if any further reporting is required.

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The range of recommendations that external auditors can make is explained in Appendix D.

Improvement recommendations

Governance

4	**Recommendation**	The Council should have an agreed approach for ensuring staff maintain an awareness and understanding of their obligations relating to the Council's code of conduct.
	Why/impact	Existing staff may not be aware of their obligations.
	Summary findings	All staff are made aware of their obligations with regards to the staff code of conduct during their induction, but do not receive regular updates or refresher training. As result those staff who have been with the Council for some time may have forgotten their obligations.
	Management comment	All staff will be reminded of their obligations with regards to the Council's code of conduct by the Monitoring Officer.

The range of recommendations that external auditors can make is explained in Appendix D.

Improvement recommendations

Governance

5	**Recommendation**	The Council should review its whistle-blowing policy annually, and update as necessary.
	Why/impact	Key policies like the whistleblowing policy should be updated annually to ensure they are up to date with current legislation and good practice and be consistent with other complementary policies, such as grievance procedures and harassment and bullying policies.
	Summary findings	The whistle-blowing policy has not been updated since 2016.
	Management comment	An update of the whistle-blowing policy will be taken to the next available Audit Committee.

The range of recommendations that external auditors can make is explained in Appendix D.

Financial sustainability

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We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans;
- plans to bridge its funding gaps and identify achievable savings;
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning; and
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

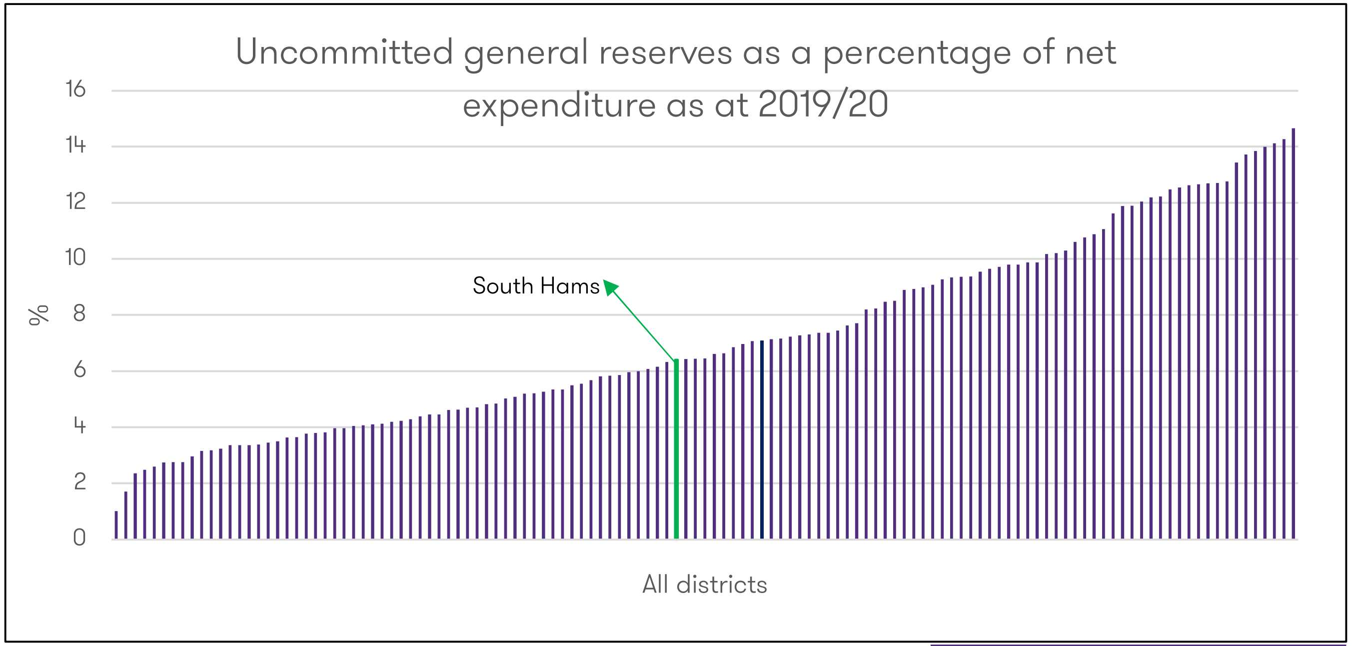
2020/21 Financial outturn

The Council has a track record of achieving financial balance and continued this for 2020/21, having reported a revenue underspend of £112,000 in its draft accounts. This underspend would not have been achieved without significant Covid-19 funding of £2.7m from central government and the introduction of an amended budget.

Capital projects have been affected by Covid-19 during the year, with some projects being delayed and an agreement to fund some of the Covid-19 revenue overspend from revenue reserves. Despite this, the Council spent £5.6m on a range of capital projects during the year compared to a profiled budget of £6.9m (82% of the planned budget).

Reserves

The Council aims to maintain general fund reserves at a minimum of £1.5m and as at 31 March 2021 the reserves were £2.112m. The table below compares the Council's general reserves as a percentage of net expenditure for all districts at 31 March 2020. The Council is in line with the midpoint and just below the average at 6.41%.



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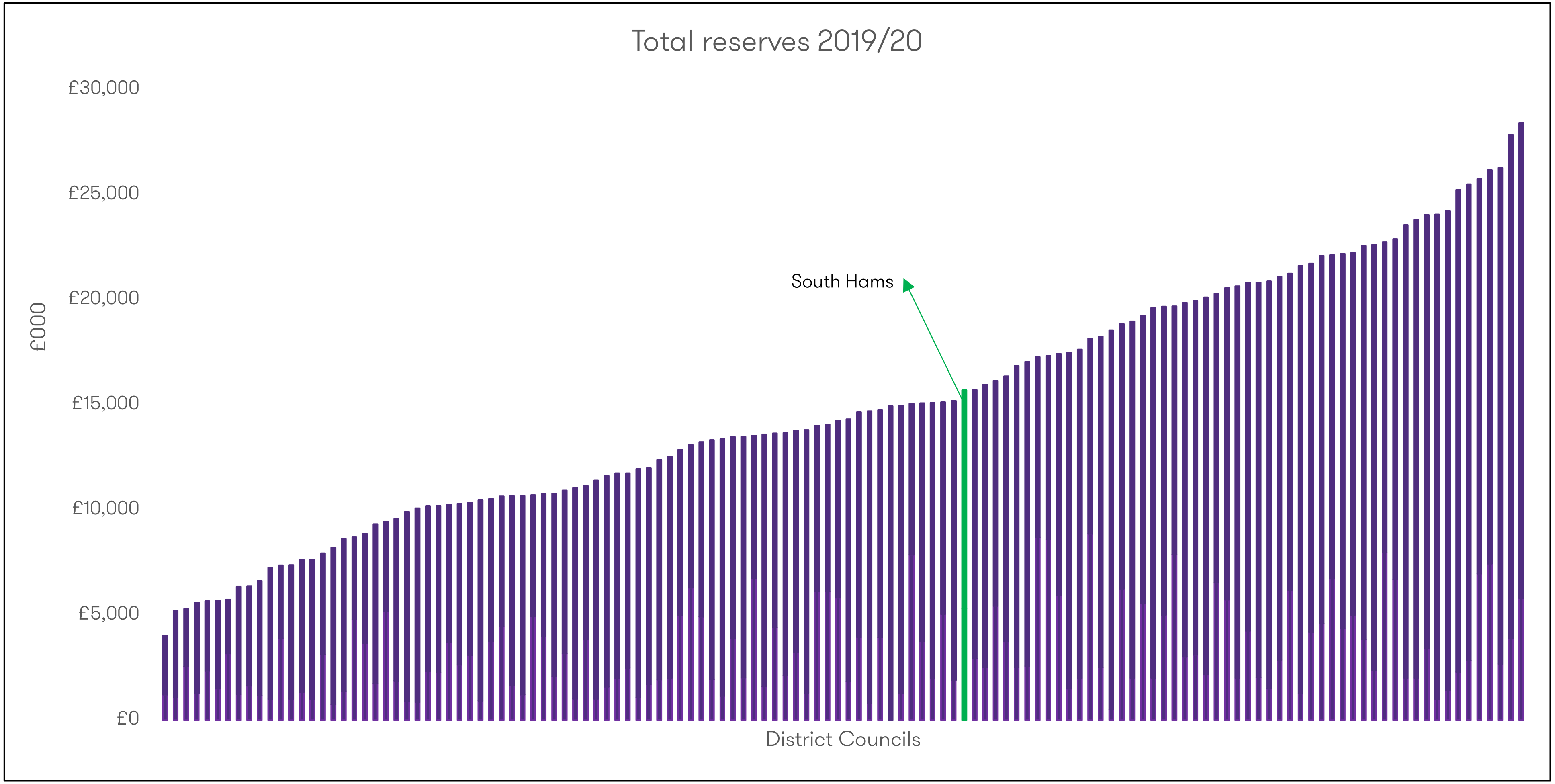
Reserves continued

The chart below illustrates total reserves in comparison to all districts based on 2019/20 Revenue Outturn data. These charts demonstrate that the Council has a reasonable amount of usable reserves to support future financial pressures. As set out on page 13, the Council has used an element of their reserves to manage the financial pressures that resulted from Covid-19.



Financial planning and Medium Term Financial Strategy

The Council's financial planning for 2020/21 followed the agreed framework and began with its updated five year Medium Term Financial Strategy (MTFS) in December 2019. The MTFS is based on the previous year's budget and is updated taking into account the previous year's outturn and any changes in service provision. The annual budget which is based upon the first year within the MTFS was agreed in February 2020. The same framework was followed to agree the MTFS and budget for 2021/22.

The MTFS was discussed and agreed by the Extended Leadership Team, before the Senior Leadership Team and prior to approval by the Executive and finally the Full Council. Although, as noted within the governance section on page 6, the Council was not actively working towards its corporate strategic priories which were agreed in 2018, it was clear on the importance of maintaining its existing service provision and financial standing during the pandemic whilst it developed its new strategic priorities and corporate plan. The existing framework and the close collaboration across the Heads of Service and Strategic Directors ensures that the financial plans took account of any changes within service or specialist areas.

Financial risks were identified and addressed within the MTFS, along with the corresponding funding gaps. The funding gaps provide the indication of the level of savings or additional income required. The funding gap and the required savings was then updated when the budget was agreed in February 2020. There were movements as the spending review changed the financial position faced by the Council in a more favourable direction, reflecting the position nationally. The savings required in 2020/21 and 2021/22 are set out in the table opposite.

Progress against the savings targets was separately reported to the Executive at month 2 and month 3, but did not continue beyond month 3. The year end financial position has been reported within the Council's draft financial statements, but progress against the savings target was not included, although failure to deliver the required savings we would expect to appear as an overspend. We have identified an improvement recommendation in respect of the reporting of savings to members, to reinstate the separate savings appendix as part of the budget monitoring report.

As a result of Covid-19 an element of the budgeted savings and additional income were not achieved in 2020/21, such as deferral of the management fee on the leisure contract and the loss of car parking income. These schemes are being closely monitored to allow them to restart once it is feasible. The savings plans also included additional income as a result of the new recycling service which were deferred until 2021/22.

Savings have been considered beyond 2021/22 but have not yet been quantified and as a result were not included within the MTFS. Savings are only included once they have been agreed by the Council and as a result budget gaps are evident within the MTFS in 2021/22 and beyond.

Unquantified savings included within the MTFS include the potential to rationalise the office accommodation and the possibility of charging for green waste. These savings areas are consistent with opportunities being explored by other English Local Government bodies.

	Savings/ income target £	Savings/ income delivered at mth 3 £	Savings/ income delivered at year end	Percentage delivered against budget
2020/21	904,877	420,000	550,990	61%
2021/22	245,309	197,037	N/A	

The MTFS considers the risks and financial pressures that the Council faces. It manages these risks by maintaining an appropriate level of reserves, ensuring effective financial control. The Council has also identified adherence to the MTFS as a corporate risk.

The agreement of the amended budget demonstrates that the Council has effectively managed the financial risks it has faced during the year and ensured measures were in place to enable the Section 151 Officer to manage the cost pressures.

The MTFS is based upon a range of assumptions which in our view are reasonable based on the amount of uncertainty faced by the sector. The Council has undertaken sensitivity and risk analysis with a total adverse effect of £1.27m in 2021/22, and the Section 151 Officer confirmed that as reserves should be maintained at minimum of £1.5m she was able to confirm the robustness of the MTFS on this basis.

Auditor judgement

The Council has a good track record of sound financial management and delivered an underspend of £122,000, after taking into account central government funding and the Council agreeing to amend its 2020/21 budget. The Council understands the financial risks which it faced and managed these risks by maintaining an appropriate level of reserves. Overall we are satisfied that the Council had appropriate arrangements in place to manage the risks it faces to financial resilience. We have not identified any risks of significant weakness, but have identified an opportunity for improvement.

Improvement recommendations

Financial sustainability

6	**Recommendation**	The Council should monitor progress against its savings plans to elected members on a regular basis throughout the year, including the year end position.
	Why/impact	Without regular reporting, elected members are unaware of the position and are unable to ensure action is taken should performance not be as planned.
	Summary findings	Progress against the savings targets was separately reported to the Executive at month 2 and month 3, but did not continue beyond month 3. The year end financial position has been reported within the Council's draft financial statements, but progress against the savings target was not included, although failure to deliver the required savings is likely to appear as an overspend.
	Management comment	The Council has already re-instated in its Revenue Budget Monitoring report, the specific Savings Appendix that showed the savings for the year and progress against delivering each of the savings individually. If savings had not been achieved, this would have already been reported to Members in the quarterly revenue budget monitoring reports as this would have been reported as an overspend. Similarly if savings had not been achieved, this would have already been reported to Members in the Final Accounts outturn report as an overspend (Year End revenue overspends and underspends are set out in detail in the Council's Final Accounts in the outturn schedule, Page 9 to the Accounts).

The range of recommendations that external auditors can make is explained in Appendix C.

Covid-19 arrangements

Since March 2020 Covid-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

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Improving economy, efficiency and effectiveness

The Council has a Business Continuity Management Strategy, which is currently being updated for changes in personnel. This is supported by an Incident and Recovery Plan which sets out the specific roles and responsibilities and business continuity plans for each service. These provided a robust base to manage and respond to Covid-19.

The Council had to issue a significant number of business and community grants and received funding of £85.4m in year, issuing £65m to local businesses in 2020/21. This required the Council to establish new arrangements, procedures and controls to ensure only those entitled to this funding received it. These arrangements were reviewed by Internal Audit who confirmed that the arrangements, introduced over a very short timescale and whilst staff worked remotely, provided substantial assurance.

The Council also introduced new measures to monitor and check additional Covid-19 costs and established new cost codes against which all expenditure should be recorded. This expenditure was then checked on a monthly basis by the Head of Finance and then the Section 151 Officer to ensure its appropriateness.

Financial sustainability

The Council recognised that Covid-19 posed a significant financial challenge to its financial sustainability. As a small district, the pandemic had a significant impact on its income and increased its costs. As a result the Council had to refocus its resources to enable support to be provided to local businesses and residents.

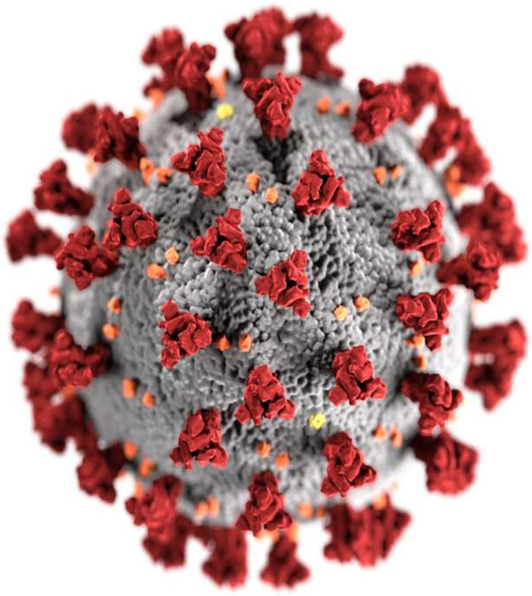
The Council increased the frequency of financial monitoring and introduced additional cost codes so that all Covid-19 expenditure could be effectively tracked and checked. In September 2020 an amended budget was agreed by Full Council with measures to the value of £1.3m, on a non-recurring basis to meet the forecast budget shortfall.

In December 2020 the Council also adopted a Covid-19 recovery and renewal plan. This brought together the activity and actions required to recover from the impacts of the pandemic. This was developed whilst also implementing measures to support the second lockdown and the ongoing challenges of Covid-19.

During the year the Council agreed to provide financial support to support its outsourced leisure provider. A total of £435,000 was provided, funded from earmarked reserves.

The Council introduced timely measures to ensure it was aware of the financial pressures and took the necessary action to ensure a balanced budget could be delivered.

Covid-19 arrangements



Governance

The Council began the year operating under its emergency powers until virtual meetings were introduced in accordance with the national emergency Covid-19 powers. In order to manage the operational pressures the Council introduced responsive and reactive daily decision making processes which operated throughout the year and still continue to operate now via the Incident Management Team (IMT), although the meetings are no longer held daily.

The IMT was chaired by a Head of Service and included a member of the SLT, should an immediate decision be required, a member of HR, a Business Manager and the Communications Team. The IMT was supported by a range of tools which were developed as the pandemic progressed, these included centralised sickness reporting, an action and decision log and a Head of Service return (this was used to report service issues and required 'nil' returns to be submitted).

The IMT had a fixed agenda and met daily at the start of the pandemic at 9.45am. Before the meeting there was an agreed schedule of meetings and tasks that were required before the IMT, such as SLT meeting, completion of the Heads of Service Incident Form and a centralised sickness return. After the meeting urgent items would be brought to the attention of SLT and a briefing session would be held with the Leader.

The Council also developed a list of agreed operational tasks which could be suspended should the need arise, its 'Apollo 13' list. The Council did shift staffing resource to manage the issue of Covid-19 grants and the community response, however it did not need to reduce any core services.

In our view effective governance arrangements were introduced to monitor the operational impact of Covid-19 on services and these arrangements enabled timely and responsive actions to be taken and ensured the Leader was briefed on a regular basis.

Opinion on the financial statements

Audit opinion on the financial statements

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.

We propose to give an unqualified opinion on the Council's financial statements following the Audit Committee on 28 October 2021 and their subsequent approval.

Other opinion/key findings

There were no other findings reported in respect of the Annual Governance Statement, Narrative Report or any other information.

Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which was published and reported to the Council's Audit Committee on 28 October 2021.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

The National Audit Office has yet to issue the auditor guidance and as a result we have yet to complete this work. We held our audit certificate and will issue this once the required procedures are completed.

Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

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Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

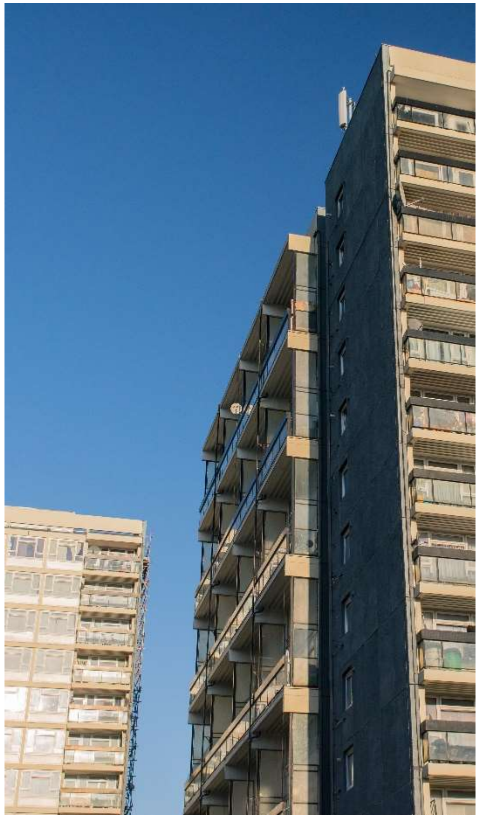
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B - Risks of significant weaknesses - our procedures and conclusions

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, the conclusions we have drawn and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Financial sustainability was not identified as a potential significant weakness, see pages 17 to 20 for more details.	No additional procedures undertaken	No significant weakness identified	Appropriate arrangements were in place. One improvement recommendation raised.
Governance was not identified as a potential significant weakness, see pages 12 to 16 for more details.	No additional procedures undertaken	No significant weakness identified	Appropriate arrangements were in place. Two improvement recommendations raised.
Improving economy, efficiency and effectiveness was identified as a risk of significant weakness, see pages 6 to 11 for further information.	The following procedures were undertaken to assess this potential significant weakness: • establishing the strategic objectives in place for 2020/21; • assessing how performance has been monitored against these objectives; • considering both formal and informal performance reporting undertaken in during the year; and • assessing if underperformance has been identified and what action was taken as a result.	No significant weakness identified	Appropriate arrangements were in place. Two improvement recommendations raised.

Appendix C - Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.	We did not make any statutory recommendations.
Public interest report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not apply to the courts.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue an advisory notice.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not apply for judicial review.

Appendix D - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	See pages 10, 11, 15, 16 and 20

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Grant Thornton

Report to:	**Audit Committee**
Date:	**28 October 2021**
Title:	**Annual Statement of Accounts 2020/2021**
Portfolio Area:	**Finance and Assets – Cllr H Bastone**
Wards Affected:	**All**

Urgent Decision:	**N**	Approval and clearance obtained:	**Y**

Date next steps can be taken: **28 October 2021**

Author:	**Alexandra Walker**	Role:	**Finance Business Partner**
	Pauline Henstock		**Head of Finance Practice and Deputy S.151 Officer**
Contact:	**01803 861345 alexandra.walker@swdevon.gov.uk**		
	01803 861377 pauline.henstock@swdevon.gov.uk		

Recommendations:

It is recommended that Members approve:

1. The wording of the Letter of Representation (Appendix A)
2. The audited Statement of Accounts for the financial year ended 31 March 2021 (Appendix B).
3. The Annual Governance Statement post audit (Appendix C)

1. Executive summary

1.1 This report presents a summary of net revenue and capital expenditure for Members' consideration and seeks approval of the audited Statement of Accounts for 2020/21. **Following approval of the accounts, the Chairman of the Audit Committee is required to sign and date the accounts.** Members are also required to consider the content of the Letter of Representation. **Following approval of its wording, the Chairman of the Audit Committee and the Section 151 Officer (Director of Strategic Finance) are required to sign the Letter of Representation.**

1.2 The 2020/21 Audit has identified one adjustment to the Draft South Hams Accounts which were considered by the Audit Committee in September and this relates to the order in which the valuation adjustment was applied in respect of the Ivybridge depot. Capital additions were factored into the 2020 valuation but were double counted as they were added on top of this valuation in the Fixed Asset Register and Draft Statement of Accounts. A reduction of £1.229m has been made to Property, Plant and Equipment and the corresponding entry of £1.229m has been made to the Revaluation Reserve (Debit PPE £1.229m and Credit Revaluation Reserve £1.229m). This is detailed further in the Audit Findings report from Grant Thornton, a separate item on this Audit Committee agenda.

1.3 Therefore the Audited Accounts for 2020-21 presented to Members of the Audit Committee today, are essentially the same set of Accounts which the Audit Committee considered at their meeting in September, except for the one change on Ivybridge Depot and a few disclosure changes.

2. Background

2.1 The Accounts and Audit (England) Regulations 2015 set out the requirements for the production and publication of the local authority's annual Statement of Accounts (SOA). These regulations introduced revised procedures for the approval and publication of accounting statements. In line with common practice in the commercial sector, local authorities are now required to approve the accounts following the completion of the audit.

2.2 The statutory timetable relating to the production and publication of the final accounts was brought forward from 2017/18. Since then the Council has been required to publish the draft SOA by 31 May, one month earlier than previously. However, due to the Covid-19 pandemic the 2020/21 statutory timetable was extended. In accordance with statute the draft Accounts for 2020/21 were published by 31 July 2021. The Accounts and Audit (Amendment) Regulations 2021 require that the audited accounts and opinion is published by 30 September 2021. As at 30 September, the District Council's external auditor had not concluded the audit due to a combination of factors, comprising the following:

- the impact of Covid-19 on both the complexity of the audit and pace at which it can be completed;
- the increased assurance work that auditors are required to carry out nationally with respect to pensions and asset valuations.

In line with the Accounts and Audit Regulations 2015, the Council published a set of draft accounts and a notice of the delay in the audit prior to 30th September. The Council will publish a final set of audited accounts following this meeting.

Despite the delay, South Hams will be one of the first Devon authorities to have their 2020/21 Accounts signed off. A recent press release from the PSAA confirmed that just 9% of all Local Authorities had their audit completed by 30 September 2021. The press release can be found at the following link:

https://www.psaa.co.uk/2021/10/news-release-2020-21-audited-accounts-psaa/

2.3 The SOA is an essential feature of public accountability, since it provides the stewardship report on the use of funds raised from the public. The closing of accounts is also important to the budgetary process, since it confirms the availability of reserves and balances for future use.

2.4 The attached booklet (Appendix B) contains the Council's final accounts in full, including details of the Comprehensive Income and Expenditure Statement (CIES), Balance Sheet and Collection Fund together with statements setting out movements in reserves and cash flow.

2.5 The accounts have been prepared in accordance with all relevant and appropriate accounting standards including, International Accounting Standard (IAS) 19 which deals with pension costs. This standard ensures that the full cost of employing people is recognised systematically in the accounts and that creditors reflect the council's liability to pay money into the pension fund. A full explanation of the pension's liability is included in the Council's SOA. Members are advised that the accounting arrangements for IAS 19 are for reporting purposes only. Indeed the required entries are reversed out of the accounts and consequently, IAS 19 has no impact on the Council's surplus for the year.

2.6 The Annual Governance Statement (AGS) for 2020/21 shown in Appendix C reflects the reporting requirements introduced by CIPFA/SOLACE's 2016 Delivering Good Governance in Local Government Framework. The requirements include:

- An acknowledgement of responsibility for ensuring there is a sound system of governance.
- A reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment.
- An opinion on the level of assurance that the governance arrangements can provide.
- An agreed action plan.
- A conclusion.

The grey shading in Appendix C shows the changes to the Annual Governance Statement (AGS), following the audit of the Accounts and the AGS.

2.7 The CIPFA/SOLACE 2016 Framework recommends that the Council carries out annually a self-assessment of the extent to which it complies with seven core principles of good governance. Examples of the framework the Council adopts to comply with the Code's key principles are included within the AGS, as well as an accompanying assurance statement.

3. Outcomes/outputs

Revenue Expenditure

3.1 Revenue expenditure represents the ongoing costs of carrying out day-to-day operations, and is financed from council tax, business rates, fees and charges, government grants and interest earned on investment activity. The under spend on the General Fund in 2020/2021 of £112,000 is essentially a break-even position. ***The Amended 2020/21 Budget was £9.41 million and therefore the saving of £112,000 means that the actual spend was 1.2% less than the budget***. The main variations from budget are shown on Page 9 of the Narrative Statement in the Statement of Accounts. The saving will go into the Council's Unearmarked Reserves which now stand at £2.12 million.

Capital Expenditure

3.2 Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £5.6 million in 2020/21. The main areas of expenditure were as follows:

- waste vehicles for the implementation of the Devon Aligned Service – new recycling scheme (£1.6m)
- waste depot at Ivybridge (£1.2m)
- residential renovation grants including disabled facilities grants (£1.1m)
- recycling boxes and containers for the implementation of the Devon Aligned Service – new recycling scheme (£0.6m)
- affordable housing scheme (£0.3m) – this was funded by a Homes England Grant
- coastal defence scheme at Beesands (£0.3m)
- purchase of future IT (£0.18m)
- new play areas (£0.07m)

- Dartmouth Health and Wellbeing Hub (£0.03m) – this capital project will mainly happen from 2021/22 onwards

The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (see Note 32 of the Statement of Accounts for 2020/21)

Audit of Accounts

3.3 The Draft Statement of Accounts was considered by the Audit Committee on 2 September 2021. These accounts are required to be audited by the Council's external auditors Grant Thornton, who give their opinion on the draft accounts. The annual audit commenced at the beginning of August 2021 and was completed in the middle of October 2021. It was undertaken remotely again this year due to the impact of the pandemic. This has resulted in some audit challenges including additional procedures to verify the completeness and accuracy of information provided remotely.

3.4 In addition to the extended time that has been placed on the audit this year due to remote working, both increased regulatory expectations and focus have meant that officers have spent significant amounts of time completing the 2020/21 audit. This falls very heavily on the finance team, who have spent in the region of 1,100 hours on both the South Hams and West Devon Audits this year, at a total cost of just under £27,000 ***(Around 660 hours of this time was spent on the South Hams Audit, costing approximately £16,000).*** There will be various other officers who have spent time on the 2020/21 audit answering queries and providing evidence, a big draw on the Council's resources. This is in addition to the time the Finance team have spent preparing the 2020/21 Accounts between March and July 2021.

3.5 The 2020/21 Audit has only identified one adjustment to the draft South Hams Accounts and this relates to the order in which the valuation adjustment was applied in respect of the Ivybridge depot. This is detailed further in 1.2 and 1.3 and the Audit Findings report from Grant Thornton, a separate item on this Audit Committee agenda.

In essence, the audited accounts are the same set of accounts that were considered by the Audit Committee in September. There is only one adjustment to the draft accounts as detailed above and a few disclosure changes.

4. Options items within the Final Accounts for 2020-21

Outturn for the 2020-21 year, COVID funding and Reserves

4.1 Due to the Covid-19 pandemic, the Council undertook more regular budget monitoring in 2020/21. The main variations from the budgeted amounts are detailed on Page 9 of the Narrative Statement in the Statement of Accounts. The analysis of variations (outturn at year end) show the amount of Covid-19 Government grant support the Council received in 2020/21 of £1.121m and the compensation from the Government income guarantee scheme for sales, fees and charges of £1.079m.

4.2 Unearmarked Reserves have increased by £112,000 in 2020/21 and total £2.122 million at 31 March 2021. Unearmarked Reserves haven't needed to be reduced as part of the Amended Budget for 2020/21, due to the amount of COVID funding the Council has received and the compensation which the Council has claimed from the Government sales, fees and charges income compensation scheme for 2020/21. Unearmarked Reserves therefore won't need to be replenished as part of the Medium Term Financial Strategy for 2022/23 onwards.

4.3 Earmarked Reserves have increased by £7.496 million in 2020/21 and total £21.494 million at 31 March 2021. This is mainly due to the new Earmarked Reserve set up in 2020/21 to hold the S31 Business Rates compensation grants (£6.28m) which will be released to the Collection Fund to smooth the impact of the Business Rates deficit over the next 3 years.

4.4 The increase in Earmarked Reserves of £6.28m (S31 Business Rates compensation grants) is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21. This temporary increase in reserves will reverse back out again in the 2021/22 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

5. Proposed Way Forward

5.1 The Council Constitution delegates approval of the Accounts to the Audit Committee. The Council is also required to sign a Letter of Representation every year, which gives representations to the Council's external auditors. The Chairman of the Audit Committee and the Section 151 Officer (Director of Strategic Finance) are required to sign the Letter of Representation. The letter is attached at Appendix A. It is recommended that Members approve the wording of the Letter of Representation.

6. Implications

Legal/Governance		The Statutory Powers that apply to this report are Section 151 Local Government Act 1972 Section 21 (12), Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015. The Accounts and Audit (England) Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement (AGS). The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 (SI 2020 No 4040)
Financial implications to include reference to value for money		The financial implications to this report are that an under spend of £112,000 was generated in 2020/2021. This means that the Council's actual spend for 2020/2021 was 1.2% less than the budget set for the year. As stated in Grant Thornton's 'Auditor's Annual Report', Grant Thornton have identified no significant weaknesses in the Council's arrangements for:- • Improving economy, efficiency and effectiveness • Governance • Financial sustainability
Risk		**Public Accountability** – the accounts have been drawn up in strict accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which is recognised by statute as representing proper accounting practice. **Resource Planning** – the Council takes into account any significant issues when developing the Council's Medium Term Financial Strategy.
Supporting Corporate Strategy		The Annual Statement of Accounts and Annual Governance Statement support all of the Delivery Plans within the Council's strategic vision, 'Better Lives for All'.
Climate Change - Carbon / Biodiversity Impact		None directly arising from this report.
Comprehensive Impact Assessment Implications		
Equality and		None directly arising from this report.

Diversity		
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

Supporting Information

Appendix A – Letter of Representation
Appendix B – Audited Statement of Accounts 2020/21
Appendix C – Annual Governance Statement (post –audit) 2020/21

Background Papers:

None.

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	**Yes**
SLT Rep briefed	**Yes**
Relevant Exec Director sign off (draft)	**Yes**
Data protection issues considered	**Yes**
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	**N/A**

South Hams
District Council

Direct telephone: 01803 861413
E-Mail: lisabuckle@swdevon.gov.uk

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
Bristol
BS2 0EL

Our ref: Letter of Representation
28 October 2021

Dear Sirs

South Hams District Council
Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of South Hams District Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of land, buildings and investment properties and the net defined benefit pension liability, depreciation, provisions, accruals and the disclosure of the fair value of loans. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Council has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council’s system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

Information Provided

xv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council’s financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvi. We have communicated to you all deficiencies in internal control of which management is aware.

xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxv. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 28 October 2021.

Yours faithfully

Name: Councillor L Austen

Position: Chairman of Audit Committee

Date: 28 October 2021

Name: Mrs L Buckle

Position: Corporate Director for Strategic Finance

Date: 28 October 2021

Signed on behalf of the Council

APPENDIX B

South Hams District Council Audited Statement of Accounts 2020/21

South Hams
District Council

Contents

Statement of Accounts 2020/21

The Statement of Accounts 2020/21 can be made available in large print, Braille, tape format or other languages upon request.

South Hams District Council is committed to reflecting the full diversity of our community and to promoting equality of opportunity for everyone.

Section 1

Narrative Statement

Introduction to the 2020/21 Statement of Accounts by Councillor Pearce, Leader of South Hams District Council

I am very pleased to welcome you to the 2020/21 Statement of Accounts for South Hams District Council. It has undoubtedly been a challenging year that none of us could really have imagined with the pandemic, one that will remain in our memories for a very long time.

In March 2020, the Council rapidly changed its operations, to provide much needed support to our community groups, our businesses and offering assistance to our most vulnerable residents through our community response. I am truly proud of the way that we have all united together, in the most difficult of times, to be there for each other and bringing about a profound rethink of the way we live and work.

The Council was proactive and approved an Amended Budget for 2020/21 in September 2020, to address the projected financial impact on the District from the pandemic. This took into account the additional financial support that was announced by the Government. Our Council, along with other South West Councils, lobbied the case for this additional funding that was so desperately needed. There was also considerable Government funding support to businesses impacted by the pandemic during the various stages of lockdown.

This included significant business grant allocations for many businesses in the retail, hospitality and leisure sector, amongst others. This funding flowed through the Council's Accounts, and the Council has handed out essential Government funding of £64 million of business grants to over 4,000 businesses throughout the year.

There is no denying that South Hams is an incredibly special place. In response to the newly evolving challenges and opportunities of the post-pandemic landscape, the Council has started a six week public consultation on its 20 year vision for our District, 'Better Lives for All'. This has key deliverables for the next three year period to May 2024. Tell us what you think about the South Hams as a place to live, work and visit: https://www.engagement.southhams.gov.uk/better-lives-for-all-survey

At the forefront of our planning for the future is ensuring the wellbeing and prosperity of residents, stimulating a resilient and diverse economy and protecting the built and natural environment. Underpinning our vision, we must ensure that we deliver quality Council services that are responsive to the needs of South Hams, its residents and businesses.

We are all aware of the huge challenge we face as a society in dealing with climate change and the Council declared an emergency in May 2019. The Council has set aside £600,000 funding to implement projects to help achieve our aim to be a carbon neutral organisation by 2030 and to help the whole District reach net-zero carbon by 2050.

In such a difficult year, I am pleased to report a small surplus for the 20/21 year of £112,000 (1.2% of the net budget of £9.41m). This shows another strong performance over what has been an exceptional year and demonstrates the Council's financial resilience and actions taken to maintain longer term stability in service delivery going forward. This surplus will go into the Council's unearmarked reserves, with a view to carrying it forward to invest in our 'Better Lives for All' strategy.

Councillor Pearce, Leader of the Council

Foreword by the Chief Executive

During the past year, the Council has continued to play a vital role in responding to the global pandemic, by continuing to deliver core services, whilst also re-aligning staff and resources to respond to the needs of the community and Government initiatives. The agile operating model established over the last few years has enabled the vast majority of staff to continue to work efficiently and safely from home, whilst the ability and willingness of staff to take on new challenges has delivered support where it has been urgently needed.

The Coronavirus pandemic has impacted the lives of everybody in our District. I am incredibly impressed at the speed at which the Council has continued to adapt to support the delivery of government support schemes such as the business grants, emergency food parcels for shielding residents and supporting our Public Health colleagues with Track and Trace.

Covid had a significant impact on our finances with some of our key income sources being impacted through the national lockdowns. As a result, in September, we developed and agreed a revised budget for the year which meant that we haven't had to make cuts to our core services. Additional funding was provided by Government to contribute to some of the financial losses we suffered and we made our voice heard through national and local lobbying of Government and our local MPs.

During these difficult times, the Council provided financial support to its leisure provider to keep leisure services running and to cover essential operating costs while they were closed, to ensure centres were in a position to reopen to our residents as restrictions began to be lifted. We also provided assistance to the local economy and local businesses through our Covid support officers providing advice and support to businesses and an enhanced localities service to support the visitor economy.

In March 2021, our Waste and Recycling Contractor (FCC) began to implement a new, enhanced recycling scheme, which has been impacted by a range of issues resulting in an unacceptable level of missed collections per week. The Council is working with FCC to resolve ongoing issues through an Improvement Plan.

I would like to take this opportunity to pay tribute to all of the Members and staff whose dedication to public service and tireless commitment has shone through in the Council's response to the pandemic.

The Council is taking its first steps towards developing a new long-term strategy for the District, 'Better Lives for All'. From supporting businesses to thrive, to helping communities stay strong, it's now time for our residents, businesses and stakeholders to share how they see South Hams as a place to live, work, and play and what they hope for in the future.

Andy Bates, Chief Executive

Message from the Section 151 Officer and Corporate Director for Strategic Finance - Lisa Buckle

The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Accounts is to enable members of the public, Council Members, partners, stakeholders and other interested parties to:

- Understand the financial position of the Council as at 31 March 2021 and how the Council has performed against the budget set for 2020/21
- Be assured that the financial position of the Council is secure, with a degree of resilience.

This Narrative Statement provides information about South Hams District Council, including the key issues affecting the Council and its Accounts. It is very important to us to provide residents and other stakeholders with the confidence that the public money for which we are responsible has been properly accounted for.

Prudent financial management in the past, has meant that the Council was in a relatively healthy position financially before the pandemic hit. When Councillors set the Budget for 2020/21 in February 2020, no-one could have foreseen how our future finances and everyday lives were about to be impacted. Significant proportions of the Council's income ceased for a number of months and there was potential for these levels not to return to normal levels for many months to come.

The finance team have tracked the financial impact of the pandemic on the Council and submitted monthly returns to the Government highlighting the financial cost and loss of income streams, as well as submitting claims to the Government for lost revenue from sales, fees and charges. The management of risk and promoting financial resilience is a key principle of our budget strategy and this has helped facilitate our response. Key to the authority's financial resilience are our reserves, which are at a prudent level.

Although our Earmarked Reserves appear to have increased in 2020/21 by £7.496m to £21.494m, an amount of £6.28m of this is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21. This temporary increase in reserves will reverse back out again in the 2021/22 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

We are in unprecedented times and the Council faces significant risk of increased demand for services, increased costs and reducing funding. The next few years will be challenging as the Council moves into the Recovery phase and the Government's Fair Funding Review and the reset of the Business Rates baseline will be introduced, coupled with receiving no Government Grant and the cessation of the current New Homes Bonus scheme.

Mrs Lisa Buckle BSc (Hons), ACA
Corporate Director for Strategic Finance (S151 Officer)

NARRATIVE STATEMENT – INTRODUCTION

1. Each year South Hams District Council publishes a Statement of Accounts that incorporates all the financial statements and disclosure notes required by statute. The Statement of Accounting Policies summarises the framework within which the Council's accounts are prepared and published.

REVIEW OF THE YEAR – THE REVENUE BUDGET

2. *The 2020/21 Amended Budget for South Hams was £9.41 million. A surplus of £112,000 means that the actual spend was 1.2% less than the budget. This saving of £112,000 will go into the Council's Unearmarked Reserves and Councillors will debate in the future, investing this is our 20 year vision, 'Better Lives for All'.* The main components of the General Fund budget for 2020/21 and how these compare with actual income and expenditure are set out below:

	Estimate £000	Actual £000	Difference Cost/ (Saving) £000
Cost of services (after allowing for income and reserve contributions)	9,614	10,202	588
Parish Precepts	2,736	2,736	-
Interest and Investment income	(203)	(207)	(4)
Amount to be met from Government grants and taxation including parish precepts	**12,147**	**12,731**	**584**
Financed from:			
Business Rates (baseline funding level)	(1,928)	(1,928)	-
Business Rates (achieved over baseline funding level)	(227)	(227)	-
Business Rates Pooling Gain – See Note* below	(225)	-	225
Council Tax (including parish precepts)	(9,299)	(9,299)	-
Surplus on Collection Fund	(60)	(60)	-
Rural Services Delivery Grant	(408)	(408)	-
Amended Budget Earmarked Reserve Contributions	-	(630)	(630)
Amended Budget – Use of 3rd tranche of Government COVID funding and New Burdens grant for the administration of the Business Rates Grants	-	(291)	(291)
SURPLUS FOR 2020/21	**-**	**(112)**	**(112)**

Note* - A Business Rates Pooling Gain of £348,000 was received in 2020/21 but this has been transferred to the Business Rates Retention Earmarked Reserve and therefore has not been used to support the cost of services in 20/21.

3. The surplus on the General Fund of £112,000 is essentially a break-even position and represents less than 0.2% of the Council's gross turnover in 2020/21 of £67 million. The £112,000 will be added to Unearmarked Reserves as set out in paragraph 2.

4. The table below shows a reconciliation of the position shown on the bottom of the Comprehensive Income and Expenditure Statement and the reported surplus for the 2020/21 financial year.

	£000
Total Comprehensive Income and Expenditure Statement	**11,037**
Surplus on the revaluation of Property, Plant and Equipment	1,681
Deficit on the revaluation of Financial Instruments	141
Remeasurements of the net defined benefit pension liability	(10,490)
Transfers to earmarked reserves	7,496
The detail of the items below are shown in Note 7 'Adjustments between Accounting Basis and Funding Basis under Regulations' in the General Fund Balance column.	
Adjustments primarily involving the Capital Adjustment Account	(787)
Adjustments primarily involving the Capital Grants Unapplied Account	179
Adjustments primarily involving the Capital Receipts Reserve	296
Adjustments primarily involving the Pensions Reserve	(2,357)
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account	(36)
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account	(7,267)
Adjustments primarily involving the Accumulated Absences Account	(5)
Surplus for the 2020/21 financial year	**(112)**

5. A summary of the main variances to budget in 2020/21 is provided below:

ANALYSIS OF VARIATIONS 2020/21 (% column shows variation against budget)	**£000**	**% variation**
Increases in expenditure/reduction in income		
COVID-19 expenditure (The £1,251k includes Leisure Support of £434k to the Council's leisure provider, which has been funded from earmarked reserves as shown below)	1,251	-
Sales, fees and charges income shortfall – e.g. losses in car parking income, planning income, Dartmouth Lower Ferry income, and some smaller income streams such as regulatory services. These losses of £1,786k are partly offset by the £1,079k of Government funding from the income guarantee scheme for sales, fees and charges as shown below	1,786	30.4%
Waste & Recycling – delay to the September 2020 go live date for Devon Aligned Service (new recycling service)	236	8.5%
Reductions in expenditure/additional income		
Salary savings (mainly from vacancies in 2020/21, as per the March 21 Budget Monitoring report which estimated £120k)	(127)	1.3%
Salary underspend from Devon Aligned Service implementation (Due to COVID-19 the Sept 2020 implementation date was delayed to March 2021 onwards – see * below)	(80)	64.0%
Employment Estates – additional rental income (£71k) and one-off electricity rebate (£72k)	(143)	22.0%
Business Rates Pooling Gain – Actual pooling gain for 2020/21 was £348k, which was £123k higher than the estimate of £225k	(123)	54.7%
COVID-19 Government grant support (the Council's share of four tranches of COVID grant funding)	(1,121)	-
Compensation from the Government income guarantee scheme for sales, fees and charges for 2020/21	(1,079)	**-**
Miscellaneous variances	(126)	**-**
Sub Total:	**474**	
Less: Transfer to a COVID Earmarked Reserve: (Fourth tranche of COVID funding of £100k)	100	**-**
Less: Transfer to a Salary Savings Earmarked Reserve: (Salary savings from vacancies in 2020/21, as per the March 21 Budget Monitoring report)	120	**-**
Less: * Transfer to the Sustainable Waste Management Earmarked Reserve: (Underspend on the Implementation costs of Devon Aligned Service – this transfer is needed to align the salary spend to the actual timescale - £80k of which will now happen in 2021/22, as per March 21 Budget Monitoring report)	80	**-**
Less: Transfer Business Rates Pooling Gain (SHDC share of the overall gain of £348k) to the Business Rates Retention Earmarked Reserve	348	**-**
Leisure support funded from Earmarked Reserves	(434)	**-**
Other one–off financing sources from the Amended Budget 2020/21	(800)	**-**
TOTAL SURPLUS FOR 2020/21	**(112)**	**1.2%**

The 2020/21 Amended Budget for South Hams was £9.41 million but the actual spend was 1.2% lower, providing a surplus of £112,000 as shown above.

KEY AREAS TO NOTE FROM THE 2020/21 STATEMENT OF ACCOUNTS

Pension Liability

6. International Accounting Standard 19 (IAS19) requires local authorities to recognise pension assets and liabilities within their accounts. The overall impact on the General Fund of the IAS 19 entries is neutral.

7. The Actuary has estimated a net deficit on the funded liabilities within the Pension Fund as at 31 March 2021 of £61.4 million. This compares to £48.5 million as at 31 March 2020. The deficit is derived by calculating the pension assets and liabilities at 31 March 2021. See Note 35 for further information.

Business Rates

8. The Local Government Finance Act 2012 introduced a Business Rates Retention Scheme (BRRS) that enabled local authorities to retain a proportion of the business rates generated in their area, with effect from 1 April 2013. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline or if a Council's income from business rates falls due to successful business rates appeals.

9. Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment was made about the likely success rate of appeals and their value.

10. In 2020/21 there has been a £63,000 increase in the provision for appeals within the Collection Fund. The balance on the Business Rates Collection Fund at 31 March 2021 is a deficit of £18,106,000 (£63,000 surplus in 2019/20). South Hams District Council's share of the surplus is 40% (£7,242,000).

11. Monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of volatility in Business Rates income due to the complex accounting arrangements for Business Rates. In 2020/21 the balance of the Business Rates Retention Scheme (BRRS) earmarked reserve increased by £0.91m to £7.10m as at 31 March 2021 (£6.19m at 31 March 2020). This reflects the additional Business Rates income generated for the District in 2020/21. Some of this additional business rates income is due to timing differences in the way the Collection Fund operates and part of the funding will be needed to meet

future years' budgets for business rates, in particular as business rates baselines are due to be re-set in the future.

12. In addition a new earmarked reserve has been created in 2020/21 called the S31 Compensation Grant (Business Rates) Reserve. During 2020/21 local authorities received S31 grants to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the S31 grants received in 2020/21 will not be discharged against the Collection Fund deficit until 2021/22 onwards. Therefore this S31 grant (£5.49m) together with the Tax Income Guarantee S31 grant for Business Rates of £0.79m has been transferred to the S31 Compensation Grant (Business Rates) Earmarked Reserve. This compensation grant will be applied to the Collection Fund over the next three years to smooth the impact of the Business Rates deficit. The balance on this reserve as at 31 March 2021 is £6.28m.

Trading Company

13. South Hams District Council and West Devon Borough Council set up a trading company, Servaco Limited, on 4th September 2014. This is a company limited by shares. The company has not traded in 2020/21 and a set of statutory dormant Accounts will be filed with Companies House for the period 1 April 2020 to 31 March 2021. The future of Servaco Limited will be reviewed during 2021/22.

Sherford Community Land Trust

14. As part of the conditions of the S106 agreement for the new town of Sherford a limited company was created on 13th July 2018 to handle the various requirements of the S106 agreement. The company is limited by guarantee without share capital. It has seven directors, made up of one representative from each of the local authorities (South Hams District Council, Plymouth City Council and Devon County Council) and one representative from each of the developers. Group accounts are not required to be prepared as the Council's interest is below 20% and therefore does not have enough influence to be an associate.

Housing Company

15. In February 2020, the Council agreed to set up a Housing Company in the form of a Community Benefit Society (CBS), to support the Council to own and manage rented housing stock. The CBS would be capable of holding the affordable housing developed by the community housing programme and also that purchased from developers. In September 2020 the Council approved expenditure of up to £5.9m to build out the first two community housing schemes (St Ann's Chapel – 13 units and South Brent – 17 units).

Borrowing

16. In 2020/21 the long term borrowing of the Council reduced from £14,475,000 (19/20) to £14,380,000. Short term borrowing increased from £92,000 to £94,000. No further external borrowing took place during 2020/21.

Capital spending

17. The Council spent £5.6m on capital projects in 2020/21. The main areas of expenditure were as follows:

    - waste vehicles for the implementation of the Devon Aligned Service – new recycling scheme (£1.6m)
    - waste depot at Ivybridge (£1.2m)
    - residential renovation grants including disabled facilities grants (£1.1m)
    - recycling boxes and containers for the implementation of the Devon Aligned Service – new recycling scheme (£0.6m)
    - affordable housing scheme (£0.3m) – this was funded by a Homes England Grant
    - coastal defence scheme at Beesands (£0.3m)
    - purchase of future IT (£0.18m)
    - new play areas (£0.07m)
    - Dartmouth Health and Wellbeing Hub (£0.03m) – this capital project will mainly happen from 2021/22 onwards

The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (please see Note 32).

Financial Instruments – IFRS9 Election to treat Equity Instruments as Fair Value through Other Comprehensive Income

18. At 31 March 2021 the Council had investments of £1.5 million with the CCLA Property Fund and £2 million with the CCLA Diversified Income Fund.

19. Upon transition to IFRS 9 – Financial Instruments on 1 April 2018, and in accordance with paragraphs 5.7.5 and 7.2.8 (b) of IFRS9, South Hams District Council makes an irrevocable election to present in other comprehensive income, changes in the fair values of its equity instruments. These investments are eligible for the election because they meet the definition of equity instruments in paragraph 11 of IAS32

and are neither held for trading (the Council holds these investments as a long term strategic investment) nor contingent consideration recognised by an acquirer in a business combination to which IFRS3 applies. They are not considered to be puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash.

20. A summary of the position of these equity instruments as at 31 March 2021 is shown below:

	Purchase cost	Fair Value at 31 March 2021	Movement in Financial Instruments Revaluation Reserve 2020/21
	£000	**£000**	**£000**
Equity Instrument			
CCLA Local Authorities	1,500	1,338	(162)
CCLA Diversified Income	2,000	1,942	(58)
TOTAL	**3,500**	**3,280**	**(220)**

FINANCIAL NEEDS AND RESOURCES

21. The Council maintains both capital and revenue reserves. The provision of an appropriate level of balances is a fundamental part of prudent financial management, enabling the Council to build up funds to meet known and potential financial commitments.

22. General Fund reserves (which include earmarked reserves) have increased by £7.61m from the preceding year and stand at £23.616 million at 31 March 2021. This is mainly due to the new Earmarked Reserve set up in 2020/21 to hold the S31 Business Rates compensation grants (£6.28m) which will be released to the Collection Fund to smooth the impact of the Business Rates deficit over the next 3 years.

23. The increase in Earmarked Reserves of £6.28m (S31 Business Rates compensation grants) is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21. This temporary increase in reserves will reverse back out again in the 2021/22 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

24. The General Fund Balance (un-earmarked reserve) has increased by £112,000 in 2020/21 and totals £2.122 million. Revenue reserves may be used to finance capital or revenue spending plans. The level of Reserves are assessed as adequate for the Council's operations.

25. Capital Reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2021 amounts to £3.27 million compared to £3.4 million at the end of the previous year.

26. There are a number of Unusable Reserves which include the Revaluation Reserve, Capital Adjustment Account, Financial Instruments Revaluation Reserve and Pensions Reserve which are subject to complex accounting arrangements. The Revaluation Reserve and Capital Adjustment Account are used primarily to account for changes in fixed asset values associated with revaluations and new capital expenditure and as such cannot be used to finance capital or revenue expenditure.

27. When reviewing the amount of overall reserves held, consideration should be given to the possible implications of the Pension Fund deficiency disclosed within the notes to the balance sheet. The requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the Authority by £61.4 million at 31 March 2021. This disclosure follows the implementation of the International Accounting Standards (IAS 19). This standard requires local authorities and other businesses to disclose pension assets and liabilities within the balance sheet.

28. It is important to gain an understanding of the accounts to appreciate the nature of this reported deficiency, which is based on a "snapshot" of pension assets and liabilities at the year end. This is quite different from the valuation basis used for the purposes of establishing the employer's contribution rate and fund shortfall, which are calculated using actuarial assumptions spread over a number of years.

Annual Governance Statement (AGS)

29. The Council's Annual Governance Statement sets out the arrangements for governance which the Council has in place. The AGS is published alongside the Accounts for 2020/21.

COVID-19 Response

30. The COVID-19 pandemic has undoubtedly had a significant impact on the Council during the financial year. The pandemic required us to refocus officer effort to deliver support to our residents, businesses and communities while maintaining the majority of our core services.

31. In March 2020 we took the decision that all office staff should work from home which meant that we were able to continue to provide our services to residents uninterrupted.

32. During the year we adapted quickly to develop the processes and procedures that enabled us to provide £64 million of business grants to 4,008 businesses within the District.

33. New community grant schemes were launched to provide support to voluntary organisations that were supporting residents and direct welfare support schemes were implemented for those residents who required short term, emergency help to buy essentials.

In Year Budget

34. Covid-19 has a significant impact on our finances with some of our key income sources being impacted throughout the national lockdowns. As a result, in September, we developed and agreed a revised budget for the year which means that we haven't had to cut our core services.

35. Fortunately additional funding has since been provided by Government to contribute to some of the financial losses we suffered.

New Chief Executive

36. Andy Bates, previously the South West Principal Adviser for the Local Government Association, took up the post of joint Chief Executive for both South Hams District Council and West Devon Borough Council with effect from June 2020. His predecessor in the post resigned in March 2020.

LOOKING FORWARD TO THE FUTURE AND NEXT STEPS

Developing our priorities

37. We have made great progress in pushing ahead with our priorities having adopted a number of strategies including Housing, Climate and Biodiversity and Consultation and Engagement.

38. These were all in development prior to the pandemic and as a result, in July, we held a series of Recovery Workshops, based on the principle of Build Back Better. This enabled all Members to put forward proposals for how we should respond to emerging challenges and maximise on emerging opportunities.

39. The recovery plans have been refined and informed a draft Corporate Strategy for the Council which will be considered during 2021/22 . There is no denying that South Hams is an incredibly special place. In response

to the newly evolving challenges and opportunities of the post-pandemic landscape, the Council has started a six week public consultation on its 20 year vision for our District, ‘Better Lives for All’. This has key deliverables for the next three year period to May 2024.

40. At the forefront of our planning for the future is ensuring the wellbeing and prosperity of residents, stimulating a resilient and diverse economy and protecting the built and natural environment. Underpinning our vision, we must ensure that we deliver quality Council services that are responsive to the needs of South Hams, its residents and businesses.

Climate Emergency Response

41. In 2019, the Council declared a climate change and biodiversity emergency. The Council has agreed an ambitious plan to support its aim to be a carbon neutral organisation by 2030 and to help the whole District reach net-zero carbon by 2050 by joining forces with the Devon Climate Emergency Response Group to support the creation of a Devon-wide plan.

42. During 2020/21 the Council backed up its ambitions by developing and adopting a Climate and Biodiversity Strategy and Action Plan setting out specific actions that the Council and our communities can take to respond to the emergency.

43. This has been backed by a £600,000 budget allocation which includes crowdfunding and grants schemes to enable our communities to implement projects supporting our new zero ambitions.

Supporting our key Towns

44. As part of our recovery planning, and to support our key towns as they reopen from the Covid-19 restrictions, we agreed a package of support including additional street cleaning and officer presence on streets and in key coastal locations.

45. This is in recognition of the anticipated increase in the number of visitors we expect during an already busy summer season.

46. We have also supported marketing activities and physical changes to our high streets in order to ensure a safe shopping experience by using the government Reopening the High Street Safely Funding. We will continue to make the best use of this funding in 2021/22.

Covid-19 Community Leadership

47. A key focus for the Council in 2021/22 will be ensuring we continue to support our communities in responding to the Covid-19 pandemic.

48. We know that the broader impacts of this pandemic will be felt for many years both locally and nationally and we continue to assess the impact on the Council's finances and our communities.

49. We continue to contribute to Team Devon (a group of statutory and voluntary organisations from across the County) which is enabling us to ensure a joined up consideration of the impacts of Covid-19 and to explore opportunities that present to us to make a positive difference to the lives of our residents.

Working with communities

50. We will continue our work with Town and Parish Councils and Neighbourhood Planning Groups to prepare Town Centre Strategies. These will identify priorities and provide the basis for coordinated action to ensure the role town centres play in meeting the needs of communities and their hinterland are maintained and enhanced.

51. Covid-19 has enhanced our relationship with Town and Parish Councils as well as wider community groups, some of which have formed specifically to help the most vulnerable through the pandemic.

52. Through our recovery planning we will look to further develop on these relationships and identify opportunities to support our communities.

Our financial future

53. The situation continues to evolve and we are continuing to assess the impacts on our finances and our communities of the pandemic, but we know that this will be a **long term recovery** and we have commenced our recovery planning.

54. The financial standing of the Council is secure in the immediate future, but there is still much work to do to ensure the long term financial sustainability of the Council. The next few years will be challenging as the Council moves into the Recovery phase and the Government's Fair Funding Review and the reset of the Business Rates baseline will be introduced, coupled with receiving no Government Grant and the cessation of the current New Homes Bonus scheme.

Going Concern

55. There is a high degree of uncertainty about future levels of funding for local government. The Council is awaiting the announcement from the Government on the Comprehensive Spending Review for 2022/23 onwards, as the plans published in the Spending Review 2020 only covered the single year of 2021/22. The other areas adding to the uncertainty are the postponement of the implementation of the Fair Funding Review, the future resetting of business rates baselines, the impact of the COVID19 pandemic on major income streams and the future of the New Homes Bonus scheme.

56. In 2020/21 a shortfall of £1.3 million was originally projected due to the impact of the COVID pandemic on the Council's financial position. At Council on 24th September 2020, Members approved an Amended Budget for 2020/21 which addressed this shortfall.

57. Based on the S151 Officer's management assessment (which has included consideration of the Government support available, the Council's current level of reserves, the level of working capital including cash and investments, a sensitivity analysis on forecast cashflows, income from local taxation and borrowing headroom etc.), there is no material uncertainty and as a result the Accounts for 2020/21 are prepared on a going concern basis.

Issue of the Accounts

58. The Corporate Director for Strategic Finance authorised the audited Statement of Accounts 2020/21 for issue on 28 October 2021. Events taking place after this date are not reflected in the financial statements or notes.

ACHIEVEMENTS FOR 2020/21

The following pages set out the achievements of the Council for 2020/21

Supporting South Hams Residents

In a year that has been challenging for all residents of South Hams, the Council has focused much of its resource on ensuring that both existing and new support schemes have been implemented to respond to residents needs.

Action	20/21 Update
Covid-19 response	During 2020/21 we took steps to ensure our residents were supported throughout the pandemic, we increased our Money Advice offering from 3 days to 5 days, launched an emergency welfare fund to support individuals that found themselves without money for essentials and delivered food parcels to vulnerable residents who were required to shield but couldn't access food and essential supplies.
Homes Strategy – Better Homes, Better Lives	During the year we developed and adopted a five year strategy setting out how we'll ensure all of our residents have access to safe and warm homes. A total of 192 residents participated in the public consultation and helped inform the strategy.
Disabled Facilities Grants	In the last 12 months we've enabled 127 residents to live in their homes more safely by adapting their property to meet their needs.
A warmer and more energy efficient home	During the year we've enabled 500 households to access energy efficient measures for their homes in addition to awarding grants to 31 of the least energy efficient properties for installing first time central heating

Supporting the Economy

This year has been incredibly challenging for many of our business, most of which were required to close as part of the national effort to stop the spread of Covid-19. The Council has acted quickly to ensure that vital lifelines have been made available to businesses across the District.

Action	2020/21
Providing government business grants	The Council acted quickly, using its new IT platform to develop application processes for businesses to claim much needed grants. A total of £64m in grants was awarded throughout the year. An incredible effort by the team.
Covid safety advice and Support to businesses	The challenges of Covid required many businesses to adapt in order to offer a safe customer experience. To enhance our existing environmental health team, we appointed Covid-19 Compliance Officers to offer businesses and towns safety advice and support. Since they joined us in November, 630 visits to businesses have been undertaken.
Agreed a £9m investment in Ivybridge	This year we formally agreed a £9m investment in Ivybridge with the aim of making it a retail and social destination.
Business Support and Advice	Through our partnership with Business Information Point, we have provided over 50 hours 1-to-1 support to 31 businesses. Support for the businesses has focused on advice to deal with the covid-19 pandemic, financial, marketing and business development support
Approved a £598,000 package of support for our key towns	To support our key towns as they reopen and begin to recover from Covid-19 impacts, we agreed a package of support including additional cleaning and officer presence on streets and in key coastal locations in recognition of the anticipated volumes of visitors, a package of town centre marketing and enhancements to facilities in our towns
Redevelopments in Salcombe	We’ve approved major redevelopment plans in Salcombe that will help the town to remain a sustainable and viable coastal community for years to come through the development of five new commercial units that will support local jobs along with a new workshop that will ensure the Harbour Authority can continue to deliver a first class customer service

Enhancing our Communities

Action	2020/21
Support to community schemes	Our Members each have a locality fund of £2,000 a year which enables them to support local community initiatives. During 2020/21, 78 schemes were awarded a total of £43,800. The total cost of these community schemes was in excess of £379,000
Adopted a Climate and Biodiversity Strategy and Action Plan	During 2020/21 the Council adopted a Climate and Biodiversity Strategy and Action Plan which sets out specific actions that the Council and our communities can take to respond to the emergency. This has been backed by a £600,000 budget allocation which includes crowdfunding and grants schemes to enable our communities to implement projects supporting our net zero ambitions
Community Safety	Through our participation in the Community Safety Partnership we have:- - Assisted schools to get funding for Run, Hide, Tell Campaign - Worked closely with Police in Totnes and Kingsbridge to address risk of exploitation of vulnerable members of the community - Worked with Wave Academy at Dartington to commission a Motiv8 scheme of mentoring to twelve children over a three month period
Seamoor Lotto	Our community lottery, now in its 3rd year, is enabling 101 charity and community groups across South Hams and West Devon to raise over £25,000 a year.
Improving community facilities	We've supported a wide number of schemes across South Hams during the year including £81k towards sport and leisure groups in Stoke Gabriel to improve access, revamping Salcombe's Courtenay Park, beginning to redesign Woodlands Park in Ivybridge and donating 15 Benches to Bayards Cove

Service Delivery and Governance

Throughout the year, we're really pleased that the significant majority of our services continued to be delivering in addition to the new services we implemented to respond to the pandemic. Our office staff all transitioned brilliantly to working from home full time and our frontline staff adopted new safety measures to ensure they could continue to support our residents and communities.

Action	2020/21
Maintaining services	We took the decision in March that all office staff should work from home. This meant that we were able to continue to provide our services to our residents uninterrupted. Our staff have been able to work from home for many years and so this was a smooth transition. Our employees were supported through the transition to homeworking, including providing advice and guidance on maintaining health and wellbeing, and holding regular staff briefings online. We also continued to recruit staff with our recruitment process shifting to an online interview process.
Revising our budget	Covid had a significant impact on our finances with some of our key income sources being impacted through the national lockdowns. As a result, in September, we developed and agreed a revised budget for the year which meant that we haven't had to make cuts to our core services. Fortunately additional funding has since been provided by Government to contribute to some of the financial losses we suffered.
Continuing to develop our priorities	We have made great progress in pushing ahead with our priorities having adopted a number of strategies focusing on Housing, Climate and Biodiversity Strategy and Consultation and Engagement. The focus for the coming year will be on delivering against the action plans for these.
Democracy Online	The Council quickly took steps to implement remote meetings of its committees. All 31 Members of the Council were able to participate in the democratic process and our residents were able to watch meetings online. A total of 43 formal committee meetings were held over the year.
Enhancing the Democratic Decision Making Process	During the year we commenced a review of the democratic decision making process including frequency and timing of meetings, public participation in committee meetings and review of Member working groups.
New Super Recycler Service	During 2020/21, our Waste and Recycling Contractor (FCC) begun to implement a new, enhanced recycling scheme. As at the end of the financial year (31st March 2021), the implementation was broadly successful, however at the time of finalising this report (June 2021), we are aware of significant issues with the implementation which continue to be addressed by the Senior Leadership Team and Executive Members.

2020/21 IN NUMBERS

The following are just a few examples of how our funding was used during the year to support our businesses, residents and communities

5,850 Residents supported with debt, housing and employment advice through our partnership with Citizens Advice

£9m Investment in making Ivybridge a social and retail destination agreed

500 Households supported to access energy efficiency measures making their home cost less to run

£598k Funding allocated to support our key town and coastal areas to recover from the Covid-19 pandemic

101 Community Groups supported to raise over £25,000 through our Seamoor Community Lotto

31 Council computers repurposed to enable home education of children without access to a computer

127 Residents properties adapted to support their needs, enabling them to remain in their own homes

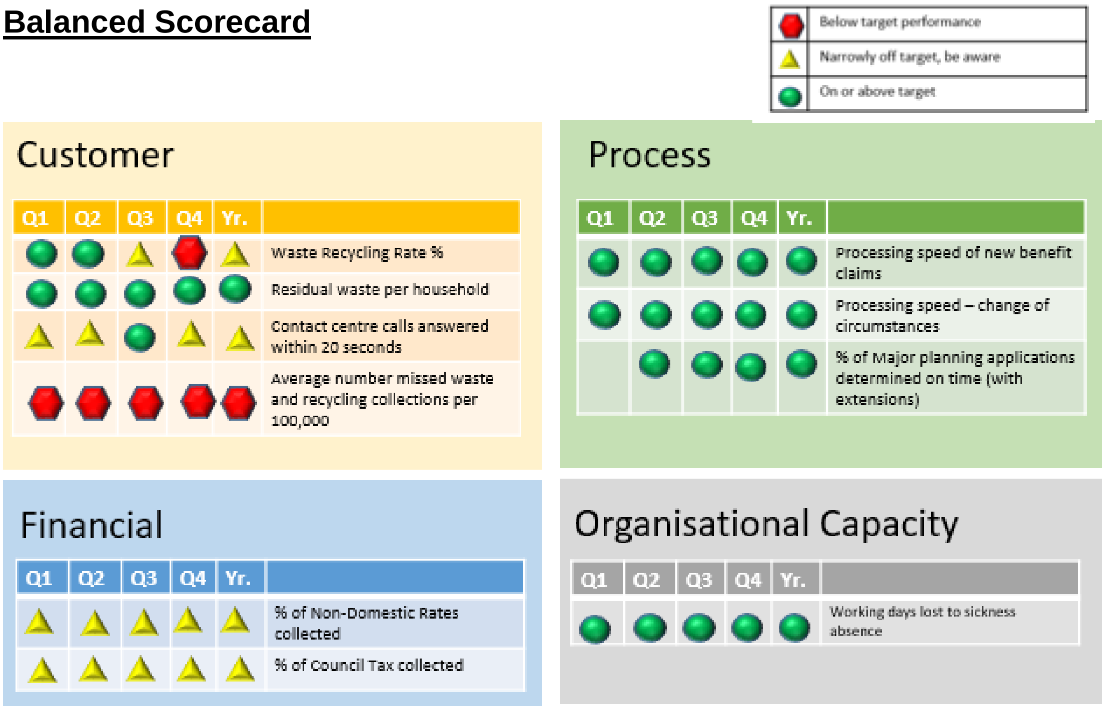
£43,000 Member Community Grants awarded to projects making improvements in local areas

£64m in Government Business Support Grants awarded to businesses within the District

PERFORMANCE INDICATORS FOR 2020/21

Work is planned to develop and implement a new Performance Management Framework for the Council and to review performance measures in line with the Council's Corporate Strategy. This will include a new approach to reporting performance through Overview and Scrutiny so that performance is reported by each theme rather than all performance measures being included in a single report.

Balanced Scorecard



In March 2021, our Waste and Recycling Contractor (FCC) began to implement a new, enhanced recycling scheme, which has been impacted by a range of issues resulting in an unacceptable level of missed collections per week and jeopardised the roll out of the new recycling service (Devon Aligned Service). The new and improved waste and recycling service will increase the amount of materials the District recycles.

In the new service, glass and plastics will be collected from the kerbside and will do much to reduce the District's carbon footprint. Some difficulties with the new service are still being experienced at the time of publishing the accounts. The Council is working with FCC (the Council's contractor) to resolve ongoing issues through an Improvement Plan.

PRINCIPAL RISKS AND UNCERTAINTIES

A risk and opportunity management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact. A Statutory Officers' Panel was set up in 2015/16 and a key role of this Panel is strategic risk management. This Panel consists of the Head of Paid Service, Chief Finance Officer and the Monitoring Officer.

A risk report is presented to the Council's Audit Committee every six months with the most recent update being to Audit Committee on 1st July 2021. The principle risks from that meeting are as set out below.

Risk Title	Description	Current Note July 2021
Delivery of waste & recycling service changes	The risk is that the contractor, FCC, lacks the capacity or ability to rectify the issues being experienced by residents at this stage resulting in further delays, increased reputational damage and overall significant frustration for our residents.	Implementation of waste changes has been impacted by a range of issues resulting in an unacceptable level of missed collections per week and jeopardised the roll out of the new recycling service (Devon Aligned Service). Major issues with the new service are being experienced at the time of the update. The Council is working with FCC (the Council's contractor) to resolve ongoing issues via an Improvement Plan. An extraordinary meeting of the Overview and Scrutiny Committee was held on 10th June 2021 to receive an update from the Portfolio Holder for Waste and Recycling on the progress in resolving the issues. On 17th June 2021, an Extraordinary meeting of Council was held to discuss performance and receive an Improvement Plan from FCC. In the short term, 26,000 residents will continue to have their recycling sorted at the kerbside into the new vehicles. 11,000 residents will have their recycling collected in a different vehicle and it will be sorted at a local sorting facility. 8,000 residents will remain on the clear and blue sack system for the time being. All residents are being asked to continue to separate their recycling following the instructions, regardless of which vehicle arrives on their collection day. The Executive Director Service Delivery has embedded a number of Council Officers within FCC to support them with rectifying the issues.

Risk Title	Description	Current Note July 2021
		The expectation is that FCC will collect recycling on the right day for all residents by the middle of July.
Adherance to Medium Term Financial Strategy	Failure to sustain a robust on-going medium term financial strategy in SHDC with adequate reserves to meet unforeseen circumstances, due to cost pressures and reduced income targets, council decisions, changes in Government policy with regard to business rates and affordable housing; Potential impact on delivering the MTFS, particularly if national/regional businesses successfully appeal against business rate valuations or litigation proceedings / legal challenges / planning appeals, etc.	The Council is in the process of closing its Accounts for 2020/21 and these will be published by 1st August 2021. In the Council's latest budget report for 2020/21, a small surplus of £96,000 is predicted, against the Council's total net budget of just over £9million. The Council has to be entirely independent to fund all of its services on a net budget of just over £9million, as the District Council no longer receives any main Government Grant (Revenue Support Grant). The Council has had a reduction in core Government funding of £4million per year since 2010. The Council will prepare its Medium Term Financial Strategy for the period covering 2022/23 to 2026/27 and this will be presented to the Executive at its September 2021 meeting, alongside the Budget Monitoring report for the first few months of 2021/22. The Council will continue to respond to national funding consultations and lobby alongside other Devon Councils and national organisations such as the District Councils' Network for a multi-year financial settlement, to aid long term strategic financial planning. The Fair Funding Review and the re-setting of the Business Rates baseline could be deferred from 2022/23. The Council is also awaiting further Government announcements on the New Homes Bonus funding. The Budget Gap over the next two years is likely to be in excess of £0.8million and work is already underway to address this. Much will also depend on the next Government financial settlement for 2022/23 and confirmation on funding items like Negative Revenue Support Grant, which has been assumed in the modelling to start impacting in 2022/23.

Risk Title	Description	Current Note July 2021
Inadequate Staffing Resource	Failure to have sufficient staffing arrangements. Loss of staff morale, and inadequate resources for training and re-skilling in an ongoing period of change. Failure to engage staff resulting in uncertainty regarding changes in working practices and job security. Particular risk in relation to future terms and conditions. Cost and time of retraining/up-skilling staff. Unrealistic expectations in relation to staffing capacity.	The ongoing response to Covid-19 continues to impact staffing resource as we continue to:- - Process business grants - Prepare for new Restart Grants - Implement Covid-19 Secure elections - Offer support and advice to businesses on safety measures - Plan for the removal of restrictions - Plan and implement recovery measures including development of a new Corporate Strategy Flexibility around government funding has meant that we have been able to extend the temporary Covid marshalls to support business advice on safety measures, supporting our existing EH team resource.
Political Commitment for Change	On-going political commitment to support changes needed for ongoing financial sustainability & community resilience	Council have supported the development of a new Corporate Strategy which will set out a clear direction and priorities for the future. A full Member briefing was held on 17 June 2021 to set out the emerging priorities. Work now continues with Executive Members to refine the priorities with a draft strategy being considered by Executive and Council in July 2021. There will be a period of consultation on the emerging priorities commencing in July 2021 and the final strategy and detailed delivery plans will be considered by Executive and Council in September 2021.
Health and Wellbeing Service Provision	Covid-19 has a significant impact on Leisure provision given the nature of activities and hygiene requirements. The risk is that as leisure centres make adjustments to reduce the risk of Covid-19 to both staff and customers, the capacity of the centres is significantly reduced while many overheads and operating costs remain the same.	All Centre's are open and running activities in line with Covid-19 restrictions and as before the popular activities being Swim School, casual swimming, group exercise classes, then going to the gym. Average monthly usage for all 6 Centres is running at c35,000 whereas prior to the pandemic this would be between 52-55,000. In the first month of returning, 634 centres memberships were taken but overall numbers are at 56% at c3,800 compared to c6,700 in Feb'20. Swim School is performing very well with numbers currently at 71% compared to Feb'20. Ivybridge is back to its normal level. Group exercise classes occupancy is at c75% and is still affected due to space and number restrictions. GP Referrals are back but numbers are still small and other activities, schools and clubs are beginning to return. Fusion highlight that customers are upbeat and usage is going in the right direction. This will hopefully improve further when Step 4 of the lockdown eases. However in a recent

Risk Title	Description	Current Note July 2021
		APSE report the effects of the pandemic on leisure are likely to last for another 18months with social distancing and public anxiety likely to suppress centre usage for a period of time. A report to Members on Leisure is on the Executive Forward Plan for October 2021.
Covid-19 (Coronavirus) impact on services	Covid-19 (Coronavirus) will impact on the ability for the Council to deliver its services leading to a drop in operational performance and customer satisfaction. There will be additional financial implications	We continue to monitor the government roadmap in order to identify any possible impacts on council services. As restrictions are lifted, we have been able to 'stand down' our community response although there still remains a focus on provision of government grants to businesses which is causing pressure in this area of the Council. The summer period may well see additional pressures to our localities team given the expected increase in 'staycations'. To support this activity, the Council have extended our Covid-19 compliance officers until the end of the year.
Business Continuity	Officers fail to develop robust processes to ensure business continuity in the event of a significant event occurring, e.g. Failure to ensure the continuous availability of critical IT systems	Covid-19 Incident Management meetings continue to be held three times a week to monitor and respond to impacts. This has been an effective way of co-ordinating the Councils response. The Extended Leadership Team are currently refining specific risk assessments for the unlocking of Covid-19 restrictions and this will form the basis of future Incident Management Team discussions. A further lessons learnt session with officers has been held to review our response to the latest lockdown and restrictions with the results of that helping to shape future incident responses.
Emergency Response	There is high public expectation in relation to supporting communities during coastal erosion/storm damage/flooding events, as well as engagement in longer term recovery, in particular assumptions about capital investment to restore assets. The risk relates to how best to support dispersed communities, e.g. with filling, transporting and laying sandbags as well as providing workforce on site, given limited resources and	The Council continues to engage with the Local Resilience Forum and is keeping its emergency response plans up to date

Risk Title	Description	Current Note July 2021
	expectations during an event.	
Delivery of Strategic Capital Projects	The risk is that the Council is not able to deliver on one or more of its strategic capital projects.	Schemes continue to be monitored in accordance with the governance arrangements set out in the mitigations column of this register. Updates on individual schemes will be provided in accordance with the Executive Forward Plan.
WD Financial position affecting SH shared arrangements	South Hams operate a joint shared services (shared workforce) arrangement with West Devon Borough Council. Both Councils have different financial pressures and strategies to meet predicted financial gaps. If West Devon were unable to meet its financial obligations, this could have a significant negative impact on South Hams.	On 22nd September 2020, West Devon Borough Council approved a revised (Amended) Budget for 2020/21 with measures totalling £501k being agreed by Members. The Deputy S151 Officer continues to submit monthly DELTA returns to Central Government that details the current additional expenditure and loss of income streams suffered by both Councils on a monthly basis (due to Covid19), with predictions for future months. In West Devon Borough Council's latest budget monitoring report for 2020/21, a small surplus of £23,000 is predicted, against WDBC's total net budget of just over £7million. The Council will prepare its Medium Term Financial Strategy for the period covering 2022/23 to 2026/27 and this will be presented to the Hub Committee at its September 2021 meeting, alongside the revenue budget monitoring report for the first few months of 2021/22. West Devon BC's budget gap over the next two years is likely to be in excess of £0.5million and work is already underway to address this. West Devon BC are predicted to have Earmarked Reserves of £3.9 million and Unearmarked Reserves of £1.1 million at 31.3.2021, as referenced in Appendix A to the Month 10 Revenue Budget Monitoring (Hub Committee report 16th March 2021).

Section 2

Core Financial Statements

SECTION 2A COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis (Note 4) and the Movement in Reserves Statement (Section 2B).

2019/20 *Restated**				**2020/21**		
Gross Expenditure £000	**Gross Income £000**	**Net Expenditure £000**	**Segment**	**Gross Expenditure £000**	**Gross Income £000**	**Net Expenditure £000**
29,595	(23,097)	6,498	Customer Service & Delivery**	33,553	(24,511)	9,042
833	-	833	Strategic Finance	737	(199)	538
8,070	(7,701)	369	Place & Enterprise***	12,423	(10,656)	1,767
6,726	(1,819)	4,907	Governance & Assurance	6,602	(1,419)	5,183
45	-	45	Material Items (Note 2)	-	-	-
45,270	**(32,618)**	**12,652**	**Cost of Services***	**53,315**	**(36,785)**	**16,530**
		2,599	Other operating expenditure (Note 9)			2,850
		130	Financing and investment income and expenditure (Note 10)			636
		(14,608)	Taxation and non-specific grant income (Note 11)			(17,647)
		773	**(Surplus) or Deficit on Provision of Services**			**2,369**
		(137)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(451)
		350	Remeasurements of the net defined benefit liability			10,490
		338	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income			(141)
		551	**Other Comprehensive Income and Expenditure**			**9,898**
		1,324	**Total Comprehensive Income and Expenditure**			**12,267**

*The 2019/20 Cost of Services has been restated in 2020/21 following a Management Restructure in September 2019. The total cost of services figures remain the same, only the presentation of the individual service groups has changed.
** The net expenditure in Customer Service and Delivery has increased by £2.544m in 2020/21. This is mainly due to additional COVID-19 expenditure of £1.2m and an increase in the accounting adjustment for pensions (IAS19) of £1.3m.
*** The net expenditure in Place and Enterprise has increased by £1.398m in 2020/21. This is largely due to losses in Car Parking and Ferry income, amounting to £1.1m.

Movement in Reserves Statement

This statement shows the movement from the start of the year to the end on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Movement in Reserves Statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Increase/Decrease in Year line shows the statutory General Fund Balance movements in the year following these adjustments.

2020/21	General Fund Balance £000	Earmarked General Fund Reserves £000	**Total General Fund Reserves £000**	Capital Receipts Reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves 2020/21 £000**
Balance at 31 March 2020 carried forward	**2,010**	**13,998**	**16,008**	**3,059**	**341**	**19,408**	**35,989**	**55,397**
Movement in Reserves during 2020/21								
Total Comprehensive Income and Expenditure	(2,369)	-	**(2,369)**	-	-	**(2,369)**	(9,898)	**(12,267)**
Adjustments between accounting basis and funding basis under regulations (Note 7)	9,977	-	**9,977**	(211)	82	**9,848**	(9,848)	**-**
Transfers to/from Earmarked Reserves (Note 8)	(7,496)	7,496	**-**	-	-	**-**	-	**-**
Increase/ (Decrease) in Year	**112**	**7,496**	**7,608**	**(211)**	**82**	**7,479**	**(19,746)**	**(12,267)**
Balance at 31 March 2021 carried forward	**2,122**	**21,494**	**23,616**	**2,848**	**423**	**26,887**	**16,243**	**43,130**

SECTION 2B MOVEMENT IN RESERVES STATEMENT

2019/20 Comparatives	General Fund Balance £000	Earmarked General Fund Reserves £000	**Total General Fund Reserves £000**	Capital Receipts Reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves 2019/20 £000**
Balance at 31 March 2019 carried forward	**1,898**	**13,293**	**15,191**	**3,537**	**828**	**19,556**	**37,165**	**56,721**
Movement in Reserves during 2019/20								
Total Comprehensive Income and Expenditure	(773)	-	**(773)**	-	-	**(773)**	(551)	**(1,324)**
Adjustments between accounting basis and funding basis under regulations (Note 7)	1,590	-	**1,590**	(478)	(487)	**625**	(625)	**-**
Transfers to/from Earmarked Reserves (Note 8)	(705)	705	**-**	-	-	**-**	-	**-**
Increase/ (Decrease) in Year	**112**	**705**	**817**	**(478)**	**(487)**	**(148)**	**(1,176)**	**(1,324)**
Balance at 31 March 2020 carried forward	**2,010**	**13,998**	**16,008**	**3,059**	**341**	**19,408**	**35,989**	**55,397**

SECTION 2C BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold, and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2020 £000		**Notes**	**31 March 2021 £000**
76,768	Property, Plant and Equipment	12	79,149
19,156	Investment Properties	13	18,560
52	Intangible Assets		202
3,139	Long Term Investments	14	3,280
99,115	**Long Term Assets**		**101,191**
15,500	Short Term Investments	14	15,600
452	Assets Held for Sale		293
69	Inventories		67
6,135	Short Term Debtors	15	15,321
16,819	Cash and Cash Equivalents	17	23,838
38,975	**Current Assets**		**55,119**
(9,193)	Short Term Creditors	18	(27,542)
(92)	Short Term Borrowing	14	(94)
(2,950)	Revenue Grants in Advance	30	(1,336)
(1,611)	Provisions	19	(1,636)
(13,846)	**Current Liabilities**		**(30,608)**
(61)	Long Term Creditors	18	(74)
(5,707)	Long Term Revenue Grants in Advance - Section 106 Deposits	30	(5,725)
(14,475)	Long Term Borrowing	14	(14,380)
(48,504)	Pensions Liability	35	(61,351)
(100)	Capital Grants - Receipts in Advance	30	(1,042)
(68,847)	**Long Term Liabilities**		**(82,572)**
55,397	**Net Assets**		**43,130**
19,408	Usable Reserves	20	26,887
35,989	Unusable Reserves	21	16,243
55,397	**Total Reserves**		**43,130**

The notes on pages 36 to 124 form part of these financial statements. The unaudited accounts were issued on 30 July 2021. The audited accounts were issued on 28 October 2021.

SECTION 2D CASHFLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income, or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2019/20 £000		**2020/21 £000**
773	**Net (surplus) or deficit on the provision of services**	**2,369**
(3,992)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 22)	(16,653)
2,205	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 23)	1,716
(1,014)	**Net cash outflows/ (inflow) from Operating Activities**	**(12,568)**
8,693	Net increase/(decrease) in Investing Activities (Note 24)	1,683
(12,569)	Net cash outflow/(inflow) from Financing Activities (Note 25)	3,866
(4,890)	**Net (increase) or decrease in cash and cash equivalents**	**(7,019)**
11,929	Cash and cash equivalents at the beginning of the reporting period	16,819
16,819	**Cash and cash equivalents at the end of the reporting period (Note 17)**	**23,838**

Section 3

Notes to the

Financial Statements

CONTENTS

1. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2021 for which there are significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets. Assets are depreciated over useful lives which are estimated annually. The carrying value of Property, Plant and Equipment as at 31 March 2021 is £80 million.	A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the value of the Council's operational properties were to reduce by 10%, this would result in an impact on the financial statements of approximately £8m. An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. If the depreciation lives of the assets were to reduce by 1 year across all assets, this would have an impact of approximately £176,000 on the Council's finances.

Item	**Uncertainties**	**Effect if Actual Results Differ from Assumptions**
Fair value measure-ment of investment property	The Council's external valuers use recognised valuation techniques to determine the fair value of Investment Property each year. This involves making assumptions and estimates in terms of how market participants would price the property. The fair value of Investment Properties as at 31 March 2021 is £19 million.	The valuations for our Investment Properties are subject to the same uncertainties as those described above. In addition, the fair value estimates may differ from the actual prices that could be achieved in an arm's length transaction. If the fair value estimates were to change by 2%, this would have a £380,000 impact on the Council's finances.
Business Rates Appeals Provision	Estimates have been made for the provision for refunding ratepayers who may successfully appeal against the rateable value of their properties. This includes the current and previous financial years. The estimate is based on those ratepayers who have appealed. The total appeals provision as at 31 March 2021 is £4.1 million, of which the Council's share is 40% (£1.6 million). Due to the uncertain impact of Covid-19 on businesses and potential rateable value appeals it is possible that current assumptions may not be fully accurate. The Government has indicated its intention to amend regulations to rule out appeals against rateable values based on the impact of the pandemic, but has not actually done so to date.	Whilst the uncertainty around Covid-19 means any estimate of the impact would be highly uncertain, the impact would feed through in to the collection fund balance which would then be taken account of in future years' budgets.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £3.1 million.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	The value of pension assets is estimated based upon information available at the Balance Sheet date, although these valuations could be earlier. The actual valuations at the Balance Sheet date, which may not be available until sometime later, may give a different value of pension assets, but this difference is not considered to be material. The Pension Fund's Actuary has provided updated figures for the year based on the valuation in 2019. This valuation is based upon cash flow and assets values as at 31 March 2021. Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out during 2022/23 (as at 31 March 2022) and will set contributions for the period from 1 April 2023 to 31 March 2026. The carrying value of the pensions liability as at 31 March 2021 is £61.4 million. Movements in the value of investments due to current economic uncertainty will affect the valuation of the pension liability. This will include the impact on the value of Investment Properties held by the Local Government Pension Scheme on behalf of South Hams District Council.	The assumptions interact in complex ways. For example, in 2020/21, the Authority's actuaries advised that the pension liability has reduced by £1.5 million as a result of a change in "demographic assumptions" and increased by £33.2 million as a result of a change in "financial assumptions". Please refer to Note 35 for further information about the assumptions used by the actuaries. If the value of investments is found to have changed from the estimates used by the actuaries, it will impact the overall value of the pension liability. For instance, a 5% increase in the pension liability would have an impact of £3.1m on the financial statements. The Council's share of these Pension Fund property investments would be material to the Council's net liability, this would also present a material uncertainty on the valuation of the Council's pension assets and liabilities as at 31 March 2021.

2. MATERIAL ITEMS OF INCOME AND EXPENSE

The following material item has been included on the face of the Comprehensive Income and Expenditure Statement (CIES) since 2014/15. This expenditure relates to the upfront investment costs for the Council's Transformation Programme (T18). There are no material items of income and expense in 2020/21.

	2019/20			2020/21		
Transformation Programme (T18) Investment Costs	**Direct £000**	**Recharges £000**	**Total £000**	**Direct £000**	**Recharges £000**	**Total £000**
GROSS REVENUE EXPENDITURE						
Redundancy and Pension Strain payments	45	-	45	-	-	-
Sub Total	**45**	**-**	**45**	**-**	**-**	**-**
GROSS REVENUE INCOME Shared Service Recharge to West Devon BC	-	-	**-**	-	-	**-**
Sub Total	**-**	**-**	**-**	**-**	**-**	**-**
NET REVENUE EXPENDITURE/ (INCOME) (as shown in the CIES)	**45**	**-**	**45**	**-**	**-**	**-**

3. EVENTS AFTER THE REPORTING PERIOD

The draft Statement of Accounts (SOA) for 2020/21 was approved for issue by the Section 151 Officer & Corporate Director for Strategic Finance on 30 July 2021. The Statement of Accounts were then reviewed by the Audit Committee on 2 September 2021. The audited accounts were authorised for issue on 28 October 2021. This is also the date up to which events after the reporting period have been considered. There are no events which took place after 31 March 2021 which require disclosure.

4. EXPENDITURE AND FUNDING ANALYSIS

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the Authority (i.e. government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Authority's service areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement in Section 2A. The Expenditure and Funding Analysis also fulfils the requirement to report by segments.

2020/21	**Net Expenditure Chargeable to the General Fund £000**	**Adjustments between Funding and Accounting Basis (Note 5) £000**	**Net Expenditure in the Comprehensive Income and Expenditure Statement £000**
Customer Service & Delivery	7,149	1,893	9,042
Strategic Finance	538	-	538
Place & Enterprise	(511)	2,278	1,767
Governance & Assurance	4,378	805	5,183
Net Cost of Services	**11,554**	**4,976**	**16,530**
Other income and expenditure	(19,162)	5,001	(14,161)
(Surplus)/Deficit on Provision of Services	**(7,608)**	**9,977**	**2,369**

	General Fund Balance £000	**Earmarked Reserves £000**	**Total General Fund Reserves £000**
Opening Balance at 31 March 2020	**(2,010)**	**(13,998)**	**(16,008)**
(Increase)/decrease in year	(112)	(7,496)	(7,608)
Closing Balance at 31 March 2021	**(2,122)**	**(21,494)**	**(23,616)**

2019/20 Comparatives (restated)*	**Net Expenditure Chargeable to the General Fund £000**	**Adjustments between Funding and Accounting Basis (Note 5) £000**	**Net Expenditure in the Comprehensive Income and Expenditure Statement £000**
Customer Service & Delivery	5,520	978	6,498
Strategic Finance	833	-	833
Place & Enterprise	(501)	870	369
Governance & Assurance	4,062	845	4,907
Material Items	45	-	45
Net Cost of Services	**9,959**	**2,693**	**12,652**
Other income and expenditure	(10,776)	(1,103)	(11,879)
(Surplus)/Deficit on Provision of Services	**(817)**	**1,590**	**773**

	General Fund Balance £000	**Earmarked Reserves £000**	**Total General Fund Reserves £000**
Opening Balance at 31 March 2019	**(1,898)**	**(13,293)**	**(15,191)**
(Increase)/decrease in year	(112)	(705)	(817)
Closing Balance at 31 March 2020	**(2,010)**	**(13,998)**	**(16,008)**

5. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

This note explains the main adjustments from the net expenditure chargeable to the general fund balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement (CIES).

Adjustments between Funding and Accounting Basis				
2020/21	**Adjustments for capital purposes (Note A) £000**	**Net change for the pensions adjustments (Note B) £000**	**Other Differences (Note C) £000**	**Total adjustments £000**
Customer Service & Delivery	1,165	723	5	**1,893**
Place & Enterprise	2,008	270	-	**2,278**
Governance & Assurance	629	176	-	**805**
Net Cost of Services	**3,802**	**1,169**	**5**	**4,976**
Other income and expenditure from the Expenditure & Funding Analysis	**(3,490)**	**1,188**	**7,303**	**5,001**
Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES	**312**	**2,357**	**7,308**	**9,977**

Adjustments between Funding and Accounting Basis				
2019/20 Comparatives (restated)*	**Adjustments for capital purposes (Note A) £000**	**Net change for the pensions adjustments (Note B) £000**	**Other Differences (Note C) £000**	**Total adjustments £000**
Customer Service & Delivery	1,616	(646)	8	**978**
Place & Enterprise	1,250	(380)	-	**870**
Governance & Assurance	1,368	(523)	-	**845**
Net Cost of Services	**4,234**	**(1,549)**	**8**	**2,693**
Other income and expenditure from the Expenditure & Funding Analysis	**(3,104)**	**1,134**	**867**	**(1,103)**
Difference between the General Fund surplus or deficit, and the surplus or deficit on the provision of services in the CIES	**1,130**	**(415)**	**875**	**1,590**

*The 2019/20 Net Cost of Services has been restated in 2020/21 following a Management Restructure in September 2019. The total net cost of services figures remain the same, only the presentation of the individual service groups has changed.

Note A: Adjustments for Capital Purposes
Adjustments for capital purposes reflect:
For services this column adds in depreciation and impairment and adjusts for revenue expenditure funded from capital under statute.
Other income and expenditure from the Expenditure and Funding Analysis – this adjusts for statutory charges for capital financing and other capital contributions are deducted. It also adjusts for capital disposals with a transfer of the income on the disposal and the amounts written-off.

Note B: Net Change for the Pensions Adjustments
Net changes for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:
For services this represents the removal of the employer pension contributions made by the Authority as allowed by statute and the replacement with current service costs and past service costs.
For other income and expenditure from the Expenditure and Funding Analysis – the net interest on the defined benefit liability is charged to the CIES.

Note C: Other Differences
Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:
For services reflects the change in the annual leave accrual when compared with the previous year.
For other income and expenditure from the Expenditure and Funding Analysis represents the timing difference between what is chargeable under statutory regulations for Council Tax and Business Rates that was projected to be received at the start of the financial year, and the income recognised under generally accepted accounting practices.

6. EXPENDITURE AND INCOME ANALYSED BY NATURE

The Expenditure and Income Analysed by Nature note shows the amounts that make up the surplus or deficit on the provision of services on the CIES, but here they are categorised by nature instead of by service segment.

Expenditure and Income Analysed by Nature	**2019/20** **£000**	**2020/21** **£000**
Employee Benefits Expenses*	10,949	14,342
Other Service Expenses	30,153	35,234
Depreciation, Amortisation and Impairment	4,223	4,088
Interest Payments	177	414
Pension Fund Administration Expenses	71	65
Net Interest on the net defined benefit liability	1,067	1,123
Losses/(Gains) on disposal of non current assets	64	49
Total Expenditure	**46,704**	**55,315**
Fees, Charges and Other Service Income	(14,264)	(13,376)
Interest and Investment Income	(385)	(220)
Income from Council Tax and Business Rates**	(5,963)	(59)
Revenue Grants and Contributions***	(23,473)	(37,758)
Capital Grants and Contributions	(1,774)	(1,420)
Other Income	(72)	(113)
Total Income	**(45,931)**	**(52,946)**
(Surplus) or Deficit on Provision of Services	**773**	**2,369**

* The increase in Employee Benefit Expenses is mainly due to an increase in the accounting adjustment for pensions (IAS19) of £2.7m. This is shown in Note 5 - Note to the Expenditure and Funding Analysis.

** The figure for Council Tax and Business Rates in this statement is shown net of expenditure (precepts to other bodies). This includes a deficit on the Business Rates Collection Fund Adjustment Account. The expenditure detail is shown in Note 11 – Taxation and Non-Specific Grant Income.

***The increase in Revenue Grants and Contributions largely relates to the receipt of additional COVID-19 related funding support, including income from the Governement Business Grants scheme, the Government sales fees and charges income compensation scheme and the S31 compensation grant that local authorities were awarded to offset the business rate reliefs given to businesses during lockdown and the Tax Income Guarantee S31 grant for Business Rates, amounting to £6.28m.

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

	Usable Reserves			
2020/21	**General Fund Balance £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account (CAA):				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):				
Charges for depreciation and impairment of non-current assets	**2,557**			**(2,557)**
Revaluation losses/(gains) on Property, Plant and Equipment	**(188)**			**188**
Movements in the market value of Investment Properties	**286**			**(286)**
Amortisation of Intangible Assets	**29**			**(29)**
Capital grants and contributions applied	**(1,241)**			**1,241**
Revenue expenditure funded from capital under statute (REFCUS)	**1,404**			**(1,404)**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	**232**			**(232)**
Insertion of items not debited or credited to the CIES:				
Statutory provision for the financing of capital investment	**(344)**			**344**
Capital expenditure charged against the General Fund	**(1,798)**			**1,798**
Revenue contribution to Capital Outlay – RCCO	**(150)**			**150**
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	**(179)**		**179**	**-**
Application of grants to capital financing transferred to the Capital Adjustment Account			**(97)**	**97**
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	**(184)**	**184**		**-**
Costs of disposal funded from capital receipts	**1**	**(1)**		**-**

	Usable Reserves			
2020/21	**General Fund Balance £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of unattached capital receipts	**(113)**	**113**		**-**
Use of the Capital Receipts Reserve to finance new capital expenditure		**(507)**		**507**
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 35)	**3,787**			**(3,787)**
Employer's pensions contributions and direct payments to pensioners payable in the year	**(1,430)**			**1,430**
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:				
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	**36**			**(36)**
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account*:				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	**7,267**			**(7,267)**
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	**5**			**(5)**
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2020/21	**9,977**	**(211)**	**82**	**(9,848)**

*The large adjustment in 2020/21 regarding the Business Rates Collection Fund Adjustment Account reflects the deficit position on the Business Rates Collection Fund at 31 March 2021. During 2020/21 local authorities received S31 grants to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the S31 grants received in 2020/21 will not be discharged against the Collection Fund deficit until 2021/22 onwards. Therefore there is a deficit on the Business Rates Collection Fund Adjustment Account at 31 March 2021.

	Usable Reserves			
2019/20 Comparatives	**General Fund Balance £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account (CAA):				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):				
Charges for depreciation and impairment of non-current assets	**2,308**			**(2,308)**
Revaluation losses/(gains) on Property, Plant and Equipment	**45**			**(45)**
Movements in the market value of Investment Properties	**(10)**			**10**
Amortisation of Intangible Assets	**92**			**(92)**
Capital grants and contributions applied	**(1,677)**			**1,677**
Revenue expenditure funded from capital under statute (REFCUS)	**1,788**			**(1,788)**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	**424**			**(424)**
Repayment of mortgage and parish loans		**1**		**(1)**
Insertion of items not debited or credited to the CIES:				
Statutory provision for the financing of capital investment	**(34)**			**34**
Capital expenditure charged against the General Fund	**(1,278)**			**1,278**
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	**(96)**		**96**	**-**
Application of grants to capital financing transferred to the Capital Adjustment Account			**(583)**	**583**
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	**(364)**	**364**		**-**
Costs of disposal funded from capital receipts	**4**	**(4)**		**-**

	Usable Reserves			
2019/20 Comparatives	**General Fund Balance £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of unattached capital receipts	**(72)**	**72**		**-**
Use of the Capital Receipts Reserve to finance new capital expenditure		**(911)**		**911**
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES (see Note 35)	**1,097**			**(1,097)**
Employer's pensions contributions and direct payments to pensioners payable in the year	**(1,512)**			**1,512**
Adjustments primarily involving the Council Tax Collection Fund Adjustment Account:				
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	**78**			**(78)**
Adjustments primarily involving the Business Rates Collection Fund Adjustment Account:				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	**789**			**(789)**
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements	**8**			**(8)**
Total Adjustments between the Accounting Basis and Funding Basis under regulations in 2019/20	**1,590**	**(478)**	**(487)**	**(625)**

8. TRANSFERS TO/ FROM EARMARKED RESERVES

This note details the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2020/21. The purpose of some of the more significant earmarked reserves are shown below:

Vehicles and Plant Renewals - This reserve is used to purchase vehicles and heavy plant to maintain a modern and efficient Council fleet, and to ensure contract conditions are met.

New Homes Bonus - This reserve was established to show how New Homes Bonus funding has been used on an annual basis.

Business Rates Retention Scheme - The Business Rates Retention Earmarked reserve covers any possible funding issues from the new accounting arrangements and to smooth the volatility from business rates income over a period of years.

Affordable Housing - To support the funding of affordable housing.

Community Housing Fund - This reserve was set up to hold the Community Housing Fund Grant.

COVID-19 -This is a new reserve set up to hold tranches of Government COVID-19 funding to protect against future COVID-19 losses.

Emergency Climate Change Projects - This a new reserve set up for Emergency Climate Change projects in order to give effect to the Council's Climate Change Action Plan.

Revenue Grants Reserve – This reserve holds revenue grants with no repayment conditions that have not been used during the year.

S31 Compensation Grant (Business Rates) Reserve - This is a new reserve set up to hold the business rates S31 grants received in 2020/21 to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the S31 grants received in 2020/21 will not be discharged against the Collection Fund deficit until 2021/22 onwards.

Although our Earmarked Reserves appear to have increased overall in 2020/21 by £7.496m to £21.494m, an amount of £6.28m of this is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21 (this funding is in the S31 Compensation Grant Reserve). This temporary increase in reserves will reverse back out again in the 2021/22 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

The table below shows the earmarked reserve balances at 31 March 2021 and the movement during 2020/21.

2020/21 EARMARKED RESERVES	**Balance at 31.3.2020 £000**	**Transfers Out £000**	**Transfers In £000**	**Balance at 31.3.2021 £000**
General Fund				
Affordable Housing	706	(38)	-	668
Community Parks and Open Spaces	38	(6)	17	49
Grounds Maintenance	-	-	104	104
Pension Fund Strain	29	(19)	99	109
Repairs and Maintenance	203	(15)	43	231
Members Sustainable Community	28	-	7	35
Marine Infrastructure Reserve	268	-	58	326
Land and Development	210	(113)	7	104
Ferry Repairs and Renewals	446	(135)	117	428
Economic Initiatives	6	(4)	21	23
Salary Savings	-	-	120	120
Emergency Climate Change Projects	-	-	400	400
Vehicles & Plant Renewals	1,183	(1,590)	550	143
COVID-19	-	-	100	100
Pay and Display Equipment	144	-	21	165
On-Street Parking	44	-	-	44
ICT Development	122	(90)	50	82
Sustainable Waste Management	54	-	192	246
District Elections	-	-	10	10
Beach Safety	14	-	-	14
Planning Policy & Major Developments	187	-	30	217
Section106 Agreements (no conditions)	38	-	-	38
Revenue Grants	607	(190)	684	1,101
Capital Programme	26	(27)	182	181
New Homes Bonus	1,697	(1,093)	1,199	1,803
Renovation Grant Reserve	7	(7)	-	-
Business Rates Retention	6,192	(6,894)	7,805	7,103
Homelessness Prevention Reserve	112	-	54	166
Strategic Change	30	(30)	-	-
Innovation Fund (Invest to Earn)	9	(9)	-	-
Community Housing Fund	493	(314)	15	194
Leisure Services Reserve	57	(6)	-	51
Support Services Trading Reserve	43	-	29	72
Environmental Health Initiatives Reserve	20	-	-	20
S106 Monitoring Reserve	133	(23)	39	149
Economic Regeneration Reserve	319	(270)	-	49
Joint Local Plan Reserve	21	(21)	-	-
S106 Technical Support Reserve	16	(19)	37	34
Maintenance, Management & Risk Reserve	8	-	29	37
Sub Total General Fund Reserves	**13,510**	**(10,913)**	**12,019**	**14,616**

Specific Reserves – Business Rates*				
Business Rates s31 Compensation Grant	-	-	6,283	6,283
Sub Total Specific Reserves Business Rates	**-**	**-**	**6,283**	**6,283**
Specific Reserves – Salcombe Harbour				
Pontoons	162	0	65	227
Harbour Renewals	136	(7)	40	169
General Reserve	190	(46)	55	199
Sub Total Specific Reserves Salcombe Harbour	**488**	**(53)**	**160**	**595**
TOTAL EARMARKED REVENUE RESERVES* (See Note on the Business Rates s31 Compensation Grant below)	**13,998**	**(10,966)**	**18,462**	**21,494**

2019/20 Comparatives EARMARKED RESERVES	**Balance at 31.3.2019 £000**	**Transfers Out £000**	**Transfers In £000**	**Balance at 31.3.2020 £000**
General Fund				
Affordable Housing	988	(282)	-	706
Community Parks and Open Spaces	107	(86)	17	38
Pension Fund Strain	-	(70)	99	29
Repairs and Maintenance	45	(39)	197	203
Members Sustainable Community	6	-	22	28
Marine Infrastructure Reserve	210	-	58	268
Land and Development	94	(5)	121	210
Ferry Repairs and Renewals	455	(96)	87	446
Economic Initiatives	27	(21)	-	6
Vehicles and Plant Renewals	1,264	(669)	588	1,183
Pay and Display Equipment	123	-	21	144
On-Street Parking	44	-	-	44
ICT Development	126	(54)	50	122
Sustainable Waste Management	29	-	25	54
District Elections	78	(88)	10	-
Beach Safety	14	-	-	14
Planning Policy & Major Developments	125	(18)	80	187
Section106 Agreements (no conditions)	38	-	-	38
Revenue Grants Reserve	578	(183)	212	607
Capital Programme	84	(328)	270	26
New Homes Bonus	1,155	(685)	1,227	1,697
Renovation Grant Reserve	7	-	-	7
Business Rates Retention	5,114	(30)	1,108	6,192
Homelessness Prevention Reserve	112	-	-	112
Strategic Change	-	(30)	60	30
Innovation Fund (Invest to Earn)	17	(8)	-	9
Community Housing Fund	1,285	(792)	-	493
Leisure Services Reserve	57	-	-	57
Support Services Trading Reserve	43	-	-	43

Environmental Health Initiatives Reserve	20	-	-	20
S106 Monitoring Reserve	124	(22)	31	133
Economic Regeneration Reserve	379	(60)	-	319
Joint Local Plan Reserve	31	(10)	-	21
S106 Technical Support Reserve	20	(4)	-	16
Maintenance, Management and Risk Management Reserve	-	-	8	8
Sub Total	**12,799**	**(3,580)**	**4,291**	**13,510**
Specific Reserves – Salcombe Harbour				
Pontoons	213	(114)	63	162
Harbour Renewals	117	(16)	35	136
General Reserve	164	(23)	49	190
Sub Total	**494**	**(153)**	**147**	**488**
TOTAL EARMARKED REVENUE RESERVES	**13,293**	**(3,733)**	**4,438**	**13,998**

Note* - Business Rates S31 Compensation Grant Earmarked Reserve
Earmarked Reserves have increased by £7.5m in 2020/21. This is mainly due to the creation of a new earmarked reserve in 2020/21 called the S31 Compensation Grant (Business Rates) Reserve. During 2020/21 local authorities received S31 grants to offset the business rate reliefs given to businesses during lockdown in the retail, hospitality and leisure sectors (business rates holidays). Under current Collection Fund accounting rules, the S31 grants received in 2020/21 will not be discharged against the Collection Fund deficit until 2021/22 onwards. Therefore this S31 grant (£5.49m) together with the Tax Income Guarantee S31 grant for Business Rates of £0.79m has been transferred to the S31 Compensation Grant (Business Rates) Earmarked Reserve. This compensation grant will be applied to the Collection Fund over the next three years to smooth the impact of the Business Rates deficit. The balance on this reserve as at 31 March 2021 is £6.28m.

This temporary increase in reserves will reverse back out again in the 2021/22 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

9. OTHER OPERATING EXPENDITURE

2019/20 £000		2020/21 £000
2,464	Parish council precepts	2,736
64	(Gains)/losses on the disposal of non-current assets	49
71	Pension administration expenses	65
2,599	**Total**	**2,850**

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2019/20 £000		2020/21 £000
177	Interest payable and similar charges	414
(372)	Interest receivable and similar income	(207)
(72)	Other investment income	(113)
1,067	Net interest on the net defined benefit liability	1,123
(670)	Investment properties (Note 13)	(581)
130	**Total**	**636**

11. TAXATION AND NON-SPECIFIC GRANT INCOME

2019/20 £000		2020/21 £000
	Council Tax	
(8,779)	• Income	(9,299)
79	• Collection Fund adjustment	35
(112)	• Collection Fund - distribution of surplus	(60)
74	• Support grant to parishes	37
	Business Rates	
(11,085)	• Income	(11,395)
11,280	• Tariff	11,464
160	• Levy payment	316
1	• Pooling administration costs	1
(238)	• Pooling benefit	(348)
193	• Transfer of Collection Fund deficit/(surplus)*	6,454
	Non ring - fenced Government Grants :	
(2,766)	• S.31 Business Rate Relief Grants*	(9,183)
(1,227)	• New Homes Bonus Grant	(1,199)
(408)	• Rural Services Delivery Grant	(408)
(6)	• Levy Account Surplus Grant	-
-	• COVID-19 LA Response Grant	(1,088)
-	• COVID-19 Sales, Fees & Charges Compensation	(1,079)
-	• COVID-19 New Burdens Admin Support Grant	(475)
(1,774)	Capital grants and contributions	(1,420)
(14,608)	**Total**	**(17,647)**

*The S31 Business Rate Relief Grants received in 2020/21 include the S31 compensation grant that local authorities were awarded to offset the business rate reliefs given to businesses during lockdown and the Tax Income Guarantee S31 grant for Business Rates, amounting to £6.28m in total. Under current Collection Fund accounting rules, the S31 grants received in 2020/21 will not be discharged against the Collection Fund deficit until 2021/22 onwards. Therefore there is a deficit on the Business Rates Collection Fund Adjustment Account at 31 March 2021 which is reflected in the transfer of the Collection Fund deficit above. The S31 compensation grant is held in an earmarked reserve and will be applied to the Collection Fund over the next three years to smooth the impact of the Business Rates deficit.

This temporary increase in Earmarked Reserves will reverse back out again in the 2021/22 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

12. PROPERTY, PLANT AND EQUIPMENT

Movements in 2020/21	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
Cost or Valuation						
At 1 April 2020	**67,314**	**9,799**	**10,912**	**454**	**397**	**88,876**
Additions	111	2,336	341		1,274	4,062
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(582)					(582)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(10)					(10)
Derecognition – disposals	(20)	(1,379)				(1,399)
Assets reclassified (to)/from Held for Sale	159					159
Other movements in cost/ valuation - reclassification	1,341		39		(1,230)	150
At 31 March 2021	**68,313**	**10,756**	**11,292**	**454**	**441**	**91,256**
Accumulated Depreciation & Impairment at 1 April 2020	**1,588**	**6,621**	**3,899**	**-**	**-**	**12,108**
Charge for 2020/21	1,377	741	439			2,557
Depreciation written out to the Revaluation Reserve	(1,033)					(1,033)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(198)					(198)
Derecognition – disposals	(3)	(1,324)				(1,327)
Other movements in depreciation - reclassification						
At 31 March 2021	**1,731**	**6,038**	**4,338**	**-**	**-**	**12,107**
Balance Sheet amount at 31 March 2021	**66,582**	**4,718**	**6,954**	**454**	**441**	**79,149**
Balance Sheet amount at 31 March 2020	**65,726**	**3,178**	**7,013**	**454**	**397**	**76,768**

Comparative Movements in 2019/20	**Land and Buildings £000**	**Vehicles, Plant, Furniture & Equipment £000**	**Infra-structure Assets £000**	**Community Assets £000**	**Assets Under Construction £000**	**Total Property, Plant & Equipment £000**
Cost or Valuation						
At 1 April 2019	**62,616**	**9,356**	**10,662**	**454**	**5,624**	**88,712**
Additions	1,203	1,068	250		371	2,892
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(914)					(914)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(270)					(270)
Derecognition – disposals	(127)	(625)				(752)
Assets reclassified (to)/from Held for Sale	(792)					(792)
Other movements in cost/ valuation - reclassification	5,598				(5,598)	-
At 31 March 2020	**67,314**	**9,799**	**10,912**	**454**	**397**	**88,876**
Accumulated Depreciation & Impairment at 1 April 2019	**1,661**	**6,604**	**3,479**	**-**	**-**	**11,744**
Charge for 2019/20	1,251	637	420			2,308
Depreciation written out to the Revaluation Reserve	(1,051)					(1,051)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(225)					(225)
Derecognition – disposals	(48)	(620)				(668)
Other movements in depreciation - reclassification						
At 31 March 2020	**1,588**	**6,621**	**3,899**	**-**	**-**	**12,108**
Balance Sheet amount at 31 March 2020	**65,726**	**3,178**	**7,013**	**454**	**397**	**76,768**
Balance Sheet amount at 31 March 2019	**60,955**	**2,752**	**7,183**	**454**	**5,624**	**76,968**

Depreciation

The Council provides for depreciation on all assets other than freehold land, community assets and investment properties. The provision for depreciation is made by allocating the cost (or revalued amount) less the estimated residual value of the assets over the accounting periods expected to benefit from their use. The straight-line method of depreciation is used. Assets are depreciated in the year following acquisition and in the year of disposal.

Asset lives are reviewed regularly as part of the rolling programme of property revaluation and annual impairment review. Where the useful life of an asset is revised, the carrying amount of the asset is depreciated over the revised remaining life.

Capital Commitments

As at 31 March 2021 the Authority had not entered into any contracts for the construction or enhancement of Property, Plant and Equipment.

As a comparison, as at 31 March 2020 the Authority had entered into the following contract for the construction or enhancement of Property, Plant and Equipment. This commitment related to:

- New depot, Ivybridge £1,200,000

Revaluations

All material freehold land and buildings which comprise the Authority's property portfolio are revalued by the Council's Valuer on a rolling basis.

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Assets are valued in accordance with a five year rolling programme (with ad hoc valuations taking place, for example where assets have been enhanced). In addition, a formal impairment review of the entire holding of land and buildings is undertaken at the end of each financial year, to ensure the carrying value reflects the fair value at the Balance Sheet date. The basis of valuation is set out in the Statement of Accounting policies in Note 38.

See Note 1 for uncertainty arising from the impact of the Covid-19 pandemic.

	Land and buildings £000	Vehicles, plant, furniture & equipment £000	Total £000
Valued at historical cost	**-**	**4,718**	**4,718**
Valued at current value in:			
2020/2021	49,186		49,186
2019/2020	6,373		6,373
2018/2019	12,224		12,224
2017/2018	29		29
Total	**67,812**	**4,718**	**72,530**

Impairment Losses

Impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure, are summarised in the preceding movements table, reconciling the movement over the year in the Property, Plant and Equipment balances. No impairment losses other than those relating to revaluation losses were incurred.

13. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

A. Income & Expenditure Account	**2019/20 £000**	**2020/21 £000**
Rental income from investment properties	(725)	(929)
Direct operating expenses arising from investment properties	55	348
Net (gain)/ loss	**(670)**	**(581)**

The following table summarises the movement in the fair value of investment properties over the year:

B. Movement in fair value	**2019/20 £000**	**2020/21 £000**
Balance at start of the year	**14,150**	**19,156**
Purchases	4,996	-
Net gains/(losses) from fair value adjustments*	10	(286)
Transfers (to)/from Property, Plant and Equipment	-	(310)
Balance at end of the year	**19,156**	**18,560**

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal.

During 2019/20 the Council incurred capital expenditure totalling £5 million for the purchase of an Investment Property in Dartmouth. This amount equated to the purchase price of the investment property plus transaction costs (e.g. stamp duty land tax) and directly attributable expenditure (costs incurred in successfully negotiating the sale terms and price and relevant professional fees e.g. legal costs) which were also capitalised in accordance with the Code. The £286,000 reduction on the fair value adjustment is due to the write down of the costs of acquisition of £296,000 (e.g. stamp duty land tax and legal and professional fees) plus a £10,000 upward valuation on Lee Mill, Ivybridge.

The Code requires that Investment Properties are measured annually at fair value. The fair value valuation was £18.56 million at 31 March 2021. The Code confirms that movements in fair value are debited to the provision of services and are not proper charges to the General Fund. They are reversed out to the Capital Adjustment Account in the Movement in Reserves Statement. Therefore this change in valuation does not impact on the Council's 'bottom line' in the Income and Expenditure account, as it is reversed out through the Capital Adjustment Account.

Fair Value Measurement of Investment Property

Observable Inputs – Level 2

The commercial land and buildings are measured using in the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted using a market-derived discount rate to establish the present value of the net income stream. The approach has been developed using the Council's own data factoring in assumptions such as duration and timing of cash inflows and outflows, rent growth, occupancy levels, bad debt levels and maintenance costs.

The Council's commercial land and buildings are therefore categorised as Level 2 in the fair value hierarchy as the measurement technique uses observable inputs to determine the fair value measurements.

Highest and Best Use of Investment Properties

In estimating the fair value of the Council's Investment Properties, it has been established that their current use is the highest and best use of the properties.

Valuation Techniques

There has been no change in the valuation techniques used during the year for Investment Properties.

14. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

Financial instruments are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cash flow characteristics.

Financial Liabilities

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the Council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus outstanding interest payable).

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

Financial Assets

To meet the code requirements, financial assets are now classified into one of three categories:

- **Financial assets held at amortised cost** – These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specific amounts. The figure presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the Comprehensive Income and Expenditure Statement (CIES) is the amount receivable as per the loan agreement.

- **Fair Value Through Other Comprehensive Income (FVOCI)** – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.

- **Fair Value Through Profit and Loss (FVTPL)** – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit loss method. Changes in loss allowances (including balances outstanding at the date of recognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES. Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

The value of debtors and creditors reported in the table overleaf are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the Balance Sheet and Notes 15 and 18 also include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

Summary of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long-term			Current	
	31 March 2020 £000	**31 March 2021 £000**		**31 March 2020 *Restated £000**	**31 March 2021 £000**
Financial Assets at Amortised Cost					
Investments	-	-		15,500	15,600
Cash and Cash Equivalents	-	-		16,819	23,838
Debtors	-	-		2,685	3,456
Fair Value through Other Comprehensive Income – Financial Assets					
Investments – CCLA Local Authorities' Property Fund	1,347	1,338		-	-
Investments – CCLA Diversified Income Fund	1,792	1,942		-	-
Total Financial Assets	**3,139**	**3,280**		**35,004**	**42,894**
Financial Liabilities at Amortised Cost					
Borrowing	(14,475)	(14,380)		(92)	(94)
Creditors	(61)	(74)		*(2,939)	(16,088)
Total Financial Liabilities	**(14,536)**	**(14,454)**		**(3,031)**	**(16,182)**

*the 2019/20 Creditors figure has reduced from £3,082k following the removal of the employee untaken leave accrual.

Designated to Fair Value Through Other Comprehensive Income

At 31 March 2021 the Council had investments of £1.5 million with the CCLA Property Fund and £2.0 million with the CCLA Diversified Income Fund.

Following the adoption of accounting standard IFRS 9 Financial Instruments in 2018/19, investments in equity are to be classified as fair value through profit and loss unless there is an irrevocable election to designate the asset as fair value through other comprehensive income.

The Council elected to designate the CCLA investments as fair value through other comprehensive income. These investments are eligible for the election because they meet the definition of equity instruments in paragraph 11 of IAS32 and are neither held for trading (the Council holds these investments as a long term strategic investment) nor contingent consideration recognised by an acquirer in a business combination to which IFRS3 applies. They are not considered to be puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash.

This election means that there is no impact on the revenue budget. Any gains or losses on the valuation of the CCLA investments will therefore be transferred to a Financial Instruments Revaluation Reserve until they are realised.

Statutory Override on Pooled Investments

As a result of the change in accounting standards for 2018/19 under IFRS 9, the Ministry for Housing, Communities and Local Government (MHCLG) agreed a temporary override to allow English Local Authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from April 2018. The Council will use the statutory override to account for any changes in the fair value on its pooled investments. For the Council's Money Market Fund investments the change in fair value was immaterial in 2020/21.

Investments in Equity Instruments Designated at Fair Value Through Other Comprehensive Income

The Council had the following investments in equity instruments at 31 March 2021:

Investment	Nominal	Fair Value	Change in Fair Value during 2020/21
	£000	**£000**	**£000**
CCLA Property Fund	1,500	1,338	(162)
CCLA Diversified Income Fund	2,000	1,942	(58)
Total	**3,500**	**3,280**	**(220)**

Net Gains and Losses on Financial Instruments

The following gains and losses have been recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments:

	2019/20	2020/21
	£000	**£000**
Net gains/losses on: Financial Assets measured at fair value through other comprehensive income	(338)	141
Total Net Gains/(Losses)	**(338)**	**141**

Fair Value of Financial Instruments

The following financial asset is measured in the Balance Sheet at fair value on a recurring basis:

Recurring Fair Value Measurements	Input Level in Fair Value Hierarchy	Valuation Technique Used to Measure Fair Value	31 March 2020 Fair Value	31 March 2021 Fair Value
			£000	**£000**
Fair Value Through Other Comprehensive Income CCLA Property Fund and CCLA Diversified Income Fund	Level 2	Inputs other than quoted market prices that are observable for the asset or liability	3,139	3,280
TOTAL			**3,139**	**3,280**

Except for the financial assets carried at fair value, all other financial liabilities and financial assets represented are carried forward on the Balance Sheet at amortised cost. Their fair values are as follows:

	31 March 2020		**31 March 2021**	
	Carrying amount	**Fair Value**	**Carrying amount**	**Fair Value**
	£000	**£000**	**£000**	**£000**
PWLB Debt – Maturity	(5,490)	(5,649)	(5,490)	(5,890)
PWLB Debt – Annuity	(9,076)	(9,080)	(8,984)	(9,812)
Long Term Creditors	(61)	(61)	(74)	(74)

Heritable Bank

At the 31 March 2021 the Council had £10,542 frozen in the Heritable Bank which is UK registered and regulated, but a subsidiary of Landsbanki, one of the Icelandic Banks that was affected by the world economic crisis. Heritable Bank is registered in Scotland with a registered address in Edinburgh. Heritable Bank PLC is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank’s shares are owned by Icelandic bank, Landsbanki.

The Council placed a deposit of £1,250,000 on 25th September 2008 with the Heritable Bank. Of this amount £1,239,458 (99%) has already been repaid to the Council by the Administrators.

The balance outstanding at 31 March 2014 (£72,368) was impaired (written out of the Balance Sheet) in the 2013/14 Accounts.

At the time the deposit was placed, the risk rating of Heritable was ‘A’ (long term deposits) and F1 (short term deposits). Both ratings indicated low risk and were within the deposit policy approved by the Council.

Administrators have kept the bank trading and are winding down the business over a period of years. The Administrators have paid sixteen dividends amounting to 99% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

15. DEBTORS

31.3.2020 £000		**31.3.2021 £000**
	Short Term	
1,258	Central Government bodies	1,802
765	Other Local Authorities	787
	Other debtors	
1,036	Council Tax	1,938
711	Business Rates*	8,389
2,365	Other entities and individuals	2,405
6,135	**Total**	**15,321**

*There is a significant increase in the short term Business Rates debtor as at 31 March 2021. This is due to the movement on the Collection Fund during 2020/21 and the end of year deficit position resulting from the timing differences in the Collection Fund accounting treatment of the S31 compensation grant. The debtor includes the deficits attributable to each of the Business Rates Preceptors (Central Government £9.05m, Devon County Council £1.63m and Devon and Somerset Fire Authority £0.18m) at 31 March 2021. This is partly offset by the Preceptors share of the Business Rates bad debts and appeals provisions.

16. DEBTORS FOR LOCAL TAXATION

The past due but not impaired amount for local taxation (council tax and business rates) can be analysed by age as follows:

31.3.2020 £000		31.3.2021 £000
559	Up to one year	377
406	One to three years	342
154	Over three years	154
1,119	**Total Debtors for Local Taxation**	**873**

17. CASH AND CASH EQUIVALENTS

31.3.2020 £000		31.3.2021 £000
719	Cash held by the Authority	638
16,100	Money Market Funds*	23,200
16,819	**Total Cash and Cash Equivalents**	**23,838**

*Cash and Cash Equivalents have increased by £7m in 2020/21. This is mainly due to the receipt of S31 compensation grants during 2020/21 amounting to £6.28m. These grants are held in an earmarked reserve as at 31 March 2021 and will be applied to the Business Rates Collection Fund over the next three years to smooth the impact of the Business Rates deficit.

18. CREDITORS

31.3.2020 £000		31.3.2021 £000
	Short Term	
(418)	Central Government bodies*	(12,960)
(1,000)	Other Local Authorities	(1,398)
	Other Creditors	
(105)	Council Tax	(135)
(3,793)	Business Rates**	(8,545)
(3,877)	Other entities and individuals	(4,504)
(9,193)	**Total**	**(27,542)**
	Long Term	
(61)	Other entities and individuals	(74)
(61)	**Total**	**(74)**

*The Council administered various Business Grants on behalf of Central Government during 2020/21 and the increase in the short term creditors is funding which represents the amount still available at year end. A large proportion of this will be distributed in 2021/22 with any remaining balances ultimately due back to Central Government.

**The increase in the creditor for Business Rates as at 31 March 2021 largely relates to S31 grant paid on account by Central Government which is due to be returned (£8.3m). This is partially offset by the Tax Income Guarantee S31 grant (£0.787m) due from Central Government.

19. PROVISIONS

Provisions payable within twelve months of the Balance Sheet date are classified as current liabilities; provisions payable more than twelve months from the Balance Sheet date are classified as long term liabilities. No long term provisions were created in 2020/21 or 2019/20. The breakdown of the 2020/21 provision is shown in the following table:

	Business Rates Appeals £000
Balance at 1 April 2020	**1,611**
Provisions made in year	330
Amounts used in year	(305)
Balance at 31 March 2021	**1,636**

Short term – Business Rates Appeals:
Provision is made for likely refunds of business rates as a result of appeals against the rateable value of business properties. The provision is based on the total value of outstanding appeals at the end of the financial year as advised by the Valuation Office Agency. Using this information, an assessment is made about the likely success rate of appeals and their value. In 2020/21 there has been a £63,000 increase in the provision for appeals within the Collection Fund. The Council's share of this is 40% (i.e. £25,000).

20. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement in Section 2B. The Council has the following usable reserves:

General Fund Balance - This balance has been established from surpluses on the Council's total expenditure. It provides a financial cushion should anything unexpected happen which would require unplanned expenditure.

Earmarked Reserves - The Council has set aside monies for specific purposes e.g. vehicle and plant replacement and the funding of strategic issues. In addition, on an annual basis monies are set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of business rates income volatility in future years. The movements in the 2020/21 Earmarked Reserves balance is explained in detail in the Narrative Statement.

Capital Receipts Reserve - Proceeds from the sale of assets are held in this reserve to be made available for future capital expenditure.

Capital Grants Unapplied - This reserve represents grants and contributions received in advance of matching to new capital investment.

21. UNUSABLE RESERVES

31.3.2020 £000		**31.3.2021 £000**
30,278	Revaluation Reserve	30,405
54,655	Capital Adjustment Account	54,796
(48,504)	Pensions Reserve	(61,351)
39	Council Tax Collection Fund Adjustment Account	3
25	Business Rates Collection Fund Adjustment Account	(7,242)
(361)	Financial Instruments Revaluation Reserve	(220)
(143)	Accumulated Absences Account	(148)
35,989	**Total Unusable Reserves**	**16,243**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation or
- disposed of and the gains are realised.

The Reserve includes only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.

Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS (Royal Institution of Chartered Surveyors) Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid. For further information please see Note 1.

31.3.2020 £000	31.3.2020 £000	Revaluation Reserve	31.3.2021 £000	31.3.2021 £000
	30,649	**Balance at 1 April**		**30,278**
1,921		Upward revaluation of assets	4,297	
(1,784)		Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(3,846)	
	137	**Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services**		**451**
(367)		Difference between fair value depreciation and historical cost depreciation	(404)	
-		Accumulated gains on assets reclassified as Investment Properties	117	
(141)		Accumulated gains on assets sold or scrapped	(37)	
	(508)	**Amount written off to the Capital Adjustment Account**		**(324)**
	30,278	**Balance at 31 March**		**30,405**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement, as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to an historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

2019/20 £000	2019/20 £000	Capital Adjustment Account	2020/21 £000	2020/21 £000
	54,312	**Balance at 1 April**		**54,655**
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES) :		
(2,308)		▪ Charges for depreciation of non-current assets	(2,557)	
(45)		▪ Revaluation gains/(losses) on Property, Plant and Equipment (PPE)	188	
10		▪ Revaluation gains/(losses) on Investment Properties	(286)	
(92)		▪ Amortisation of Intangible Assets	(29)	
(1,788)		▪ Revenue expenditure funded from capital under statute (REFCUS)	(1,404)	
(424)		▪ Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(232)	
	(4,647)	**Total**		**(4,320)**
141		Amounts of Revaluation Reserve balance written off on disposal or sale of PPE	37	
-		Amounts of Revaluation Reserve written off on reclassification of PPE to Investment Properties	(117)	
367		Adjusting amounts written out of the Revaluation Reserve	404	
	508	**Net written out amount of the cost of non-current assets consumed in the year**		**324**
		Capital financing applied in the year:		
911		• Use of the Capital Receipts Reserve to finance new capital expenditure	507	
1,677		• Capital grants and contributions credited to the CIES that have been applied to capital financing	1,241	
583		• Application of grants to capital financing from the Capitals Grants Unapplied Account	97	
34		• Statutory provision for the financing of capital investment charged against the General Fund	344	
1,278		• Capital expenditure charged against the General Fund	1,798	
-		• Revenue Contribution to Capital Outlay (RCCO)	150	
(1)		• Repayment of parish loans	-	
	4,482	**Total**		**4,137**
	54,655	**Balance at 31 March**		**54,796**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement (CIES) as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31.3.2020 £000	Pensions Reserve	31.3.2021 £000
(48,569)	**Balance at 1 April**	**(48,504)**
(350)	Actuarial gains or (losses) on pension assets and liabilities	(10,490)
(1,097)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(3,787)
1,512	Employer's pensions contributions and direct payments to pensioners payable in the year	1,430
(48,504)	**Balance at 31 March**	**(61,351)**

Council Tax Collection Fund Adjustment Account

The Council Tax Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement (CIES) as it falls due from council tax payers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31.3.2020 £000	Council Tax Collection Fund Adjustment Account	31.3.2021 £000
117	**Balance at 1 April**	**39**
(78)	Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(36)
39	**Balance at 31 March**	**3**

Business Rates Collection Fund Adjustment Account

A scheme for the retention of business rates came in to effect on 1 April 2013 and established new accounting arrangements. The Business Rates Collection Fund Adjustment Account manages the differences arising from the recognition of business rates income in the Comprehensive Income and Expenditure Statement (CIES) as it falls due from ratepayers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31.3.2020 £000	Business Rates Collection Fund Adjustment Account	31.3.2021 £000
814	**Balance at 1 April**	**25**
(789)	Amount by which Business Rates income credited to the CIES is different from Business Rates income calculated for the year in accordance with statutory requirements*	(7,267)
25	**Balance at 31 March**	**(7,242)**

*The large movement in the 2020/21 Business Rates Collection Fund Adjustment Account reflects the deficit position on the Business Rates Collection Fund as at 31 March 2021. During 2020/21 local authorities received S31 grants to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the S31 grants received in 2020/21 will not be discharged against the Collection Fund deficit until 2021/22 onwards. Therefore there is a deficit on the Business Rates Collection Fund Adjustment Account at 31 March 2021.

Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised

31.3.2020 £000	Financial Instruments Revaluation Reserve	31.3.2021 £000
(23)	**Balance at 1 April**	**(361)**
-	Upward revaluation of assets	151
(338)	Downward revaluation of assets	(10)
(361)	**Balance at 31 March**	**(220)**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from this Account.

31.3.2020 £000	31.3.2020 £000	Accumulated Absences Account	31.3.2021 £000	31.3.2021 £000
	(135)	**Balance at 1 April**		**(143)**
135		Settlement or cancellation of accrual made at the end of the preceding year	143	
(143)		Amounts accrued at the end of the current year	(148)	
	(8)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		**(5)**
	(143)	**Balance at 31 March**		**(148)**

22. CASH FLOW STATEMENT – ADJUSTMENTS TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS

2019/20 £000		2020/21 £000
(2,308)	Depreciation	(2,557)
(45)	Impairment and downward valuations	188
10	Movement in market value of investment properties	(286)
(92)	Amortisation	(29)
(33)	Increase/(decrease) in Debtors	606
(1,508)	Increase/(decrease) in Creditors	(11,984)
(7)	Increase/(decrease) in Inventories	(2)
415	Movement in pension liability	(2,357)
(424)	Carrying amount of non-current assets held for sale, sold or derecognised	(232)
(3,992)	**Total**	**(16,653)**

23. CASH FLOW STATEMENT – ADJUSTMENTS TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING AND FINANCING ACTIVITIES

2019/20 £000		2020/21 £000
432	Proceeds from the sale of non-current assets	296
1,773	Other non-cash items charged to the net surplus or deficit on the provision of services	1,420
2,205	**Net cash flows from investing activities**	**1,716**

24. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2019/20 £000		2020/21 £000
7,899	Purchase of Property, Plant and Equipment, Investment Properties and Intangible Assets	4,241
3,000	Increase/(decrease) in investments	100
(432)	Proceeds from the sale of Property, Plant and Equipment, Investment Properties and Intangible Assets	(296)
(1,774)	Other receipts from investing activities (capital grants and contributions)	(2,362)
8,693	**Net cash flows from investing activities**	**1,683**

25. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2019/20 £000		2020/21 £000
(9,077)	Cash receipts of short term and long term borrowing	-
-	Repayments of short and long-term borrowing	93
(3,492)	Other payments for financing activities*	3,773
(12,569)	**Total**	**3,866**

*The movement between 2019/20 and 2020/21 is due to the movement on the Collection Fund during 2020/21 and the end of year deficit position from the timing differences in the Collection Fund accounting treatment of the S31 compensation grant. For further information see Note 15 and 18.

26. TRADING OPERATIONS – BUILDING CONTROL

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the Building Control function. Building Regulations Control Services operate as a separate trading unit.

As of 1 April 2017, South Hams District Council (SHDC), West Devon Borough Council (WDBC) and Teignbridge District Council (TDC) entered into an updated partnership agreement and a new hosting agreement with respect to the staff and functions delivered by Devon Building Control Partnership (DBCP) to the three Council areas. This agreement saw the transfer of all staff who had DBCP responsibilities from SHDC or WDBC to TDC. As a result of this change, operational arrangements such as the delivery and management of support service functions, including holding the DBCP financial reserve, passed to TDC. Consequently the balance of the Building Control earmarked reserve was paid over to TDC during 2017/18 (£436,000). SHDC & WDBC retain control over the operation of this reserve and the DBCP by virtue of the partnership and hosting agreement, along with active participation in the controlling Devon Building Control Partnership Committee.

The Summary Accounts for the year will be detailed in the DBCP Accounts, which can be found on Teignbridge District Council's Website under the Devon Building Control Partnership Committee 2020/2021.

27. MEMBERS' ALLOWANCES

The Authority paid the following amounts to Members of the Council during the year. Members allowances are published on the Council's website under 'Your Council' in the 'Councillors and Committees' section.

2019/20 £000		**2020/21 £000**
240	Allowances	245
24	Expenses	1
264	**Total**	**246**

28. OFFICERS' REMUNERATION

Regulation 4 of the Accounts and Audit (Amendment No.2) (England) Regulations 2009 [SI 2009 No. 3322] introduced a legal requirement to increase transparency and accountability in Local Government for reporting remuneration of senior employees.

A senior employee is defined as an employee whose salary is more than £150,000 per year, or alternatively one whose salary is at least £50,000 per year (to be calculated pro rata for a part-time employee) and who is:

- the designated head of paid service, a statutory chief officer or a non-statutory chief officer of a relevant body, as defined under the Local Government and Housing Act 1989
- the head of staff for a relevant body which does not have a designated head of paid service; or
- any person having responsibility for the management of the relevant body, to the extent that the person has power to direct or control the major activities of the body, in particular activities involving the expenditure of money, whether solely or collectively with other persons.

The remuneration paid to the Authority's senior employees is as follows:

Post	Year	Salary, Fees and Allowances £	Expenses £	Pension Contribution £	Total £
Chief Executive and Head of Paid Service (Post vacant from 15/03/20 to 07/06/20 - Note C)	19/20	111,900	800	16,300	**129,000**
	20/21	100,300	-	16,900	**117,200**
Corporate Director of Governance & Assurance (New post, start date 09/09/19 – Note B)	19/20	39,400	400	5,700	**45,500**
	20/21	72,500	500	12,200	**85,200**
Head of Finance (Deputy S.151 Officer) – regraded from 01/12/19	19/20	55,100	100	8,000	**63,200**
	20/21	58,000	100	9,300	**67,400**
Head of Maritime – regraded from 01/12/19	19/20	50,400	1,300	7,400	**59,100**
	20/21	54,200	1,000	8,900	**64,100**
Head of IT – regraded from 01/12/19	19/20	50,300	200	7,300	**57,800**
	20/21	56,500	100	9,500	**66,100**
Head of Place Making – regraded from 01/12/19, post vacant until 26/10/20	19/20	47,800	700	7,000	**55,500**
	20/21	22,200	100	3,700	**26,000**
Head of Human Resources – regraded from 01/12/19	19/20	48,900	100	7,100	**56,100**
	20/21	52,400	200	8,800	**61,400**
Customer First Specialist Manager (Post holder moved to Corporate Director of Governance & Assurance 09/09/19)	19/20	23,500	600	3,400	**27,500**
	20/21	-	-	-	**-**
Head of Legal & Monitoring Officer (in post from 10th November 2020 – Note D)	19/20	-	-	-	**-**
	20/21	50,300	-	8,400	**58,700**

No other officers earned over £50,000 during 2020/21 or 2019/20.

SECTION 3. NOTES TO THE FINANCIAL STATEMENTS

Note A: Shared Services with West Devon Borough Council
The total cost of senior employees employed by West Devon Borough Council has been included in the equivalent note of West Devon Borough Council's Accounts in accordance with the accounting requirements and is therefore excluded from the table above.

In 2020/21 South Hams District Council reimbursed costs amounting to £502,000 (2019/20 £429,700) in respect of some members of the Senior Leadership Team (SLT) and the Extended Leadership Team (ELT) who are employed by West Devon Borough Council. South Hams District Council received a reimbursement in 2020/21 from West Devon Borough Council of £233,100 (2019/20 £216,400) in respect of the above shared senior employees.

Note B: Senior Leadership Team interim arrangements
South Hams District Council is in a shared services arrangement with West Devon Borough Council and the two Councils have a shared Senior Leadership Team and a shared non-manual workforce. Following the resignation of the former Executive Director in February 2018, Council approved interim senior management arrangements. A report was presented to Council on 21 February 2019 (Council Minute 55/18) that outlined a review of the Staffing Establishment.

The Review Panel, consisting of the Leaders of each Council and senior Members recommended that the previous structure incorporating two Executive Directors was replaced with a Chief Executive Officer. The Panel also recommended that once in post, the Chief Executive brings forward a proposed new senior leadership structure that builds upon the recommendations of the Peer Review and will be along the lines of:

- Director of Customer Service and Delivery
- Director of Place and Enterprise
- Director of Governance
- Director of Strategic Finance

It was resolved that with effect from 21 February 2019, the Executive Director for Service Delivery and Head of Paid Service be appointed to the role of Chief Executive and that agreement be given to extending the interim senior management arrangements with a report being brought to Council recommending a new structure within six months of the 2019 Council elections, with the objective of finding cost reductions.

Following a restructure and recruitment process, the Senior Leadership Team was finalised in September 2019 to include the following posts across both South Hams District Council and West Devon Borough Council:

- Chief Executive & Head of Paid Service (South Hams)
- Director of Customer Service and Delivery (West Devon)
- Director of Place and Enterprise (West Devon)
- Director of Governance & Assurance (South Hams)

- Director of Strategic Finance (West Devon)

Following the Senior Leadership Team restructure, the Extended Leadership Team and Team Leader structure was reviewed to ensure that resources were aligned to delivering the Council's corporate priorities. This resulted in the following changes to the establishment:-

Deletion of the following posts

- Specialist Manager: Customer First (South Hams)
- Specialist Manager: Support Services (West Devon)
- Case Management Manager: Customer First (South Hams)
- Case Management Manager: Support Services (West Devon)
- Commissioning Manager (West Devon)

Creation of the following posts

- Head of Strategy & Projects (West Devon)
- Business Manager: Specialists (West Devon)
- Business manager: Case Management (West Devon)
- Customer Improvement Manager (West Devon)

This restructure concluded in December 2019 resulting in a saving of £60,000 per annum for South Hams District Council.

Note C: Chief Executive and Head of Paid Service
The Chief Executive and Head of Paid Service left the Council on 15th March 2020. This post was covered on an interim basis by the Strategic Director of Customer Service employed by West Devon Borough Council. South Hams District Council successfully recruited to this post in June 2020.

Note D: Head of Legal and Monitoring Officer
The Chief Executive and Head of Paid Service conducted a review of the arrangements to ensure there was clarity of accountability for the statutory functions, and to make sure that the Monitoring Officer had the capacity to respond in a timely and effective manner to all issues referred to the role. A report was taken to Council in September 2020 which recommended the designation of the Monitoring Officer role to the Head of Legal Services (once appointed) and removal of the Monitoring Officer responsibilities and duties from the Business Manager (Specialists) employed by West Devon Borough Council. The Head of Legal and Monitoring Officer was appointed on 10 November 2020.

29. PAYMENTS TO EXTERNAL AUDITORS

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Authority's external auditors:

	Restated* **2019/20** **£000**	**2020/21** **£000**
Fees payable with regard to external audit services	**54**	**64**
Core Audit Fees	47	54
Audit of Grants and Returns	7	10
Rebate from Public Sector Audit Appointments Ltd	**(4)**	**-**
Total	**50**	**64**

*The 2019/20 audit fees have been increased from £40,000 (Core Audit Fees) and £6,000 (Audit of Grants) to £47,000 and £7,000 respectively. These changes reflect the additional audit fees charges in repect of 2019/20.

30. GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

	2019/20 £000	2020/21 £000
Credited to Taxation and Non-Specific Grant Income		
Capital grants and contributions:		
Disabled Facilities Grants	(1,081)	(1,141)
Capital Section 106 deposits	(638)	-
Homes England (Clay Park)	-	(270)
Other capital grants and contributions	(55)	(9)
Non ring - fenced Government grants and contributions:		
New Homes Bonus Grant	(1,227)	(1,199)
S31 Business Rate Relief Grants*	(2,766)	(9,183)
Levy Account Surplus Grant	(6)	-
Rural Services Delivery Grant	(408)	(408)
COVID-19 LA Response Grant	-	(1,088)
COVID-19 Sales, Fees & Charges Compensation		(1,079)
COVID-19 New Burdens Admin Support Grant		(475)
Total	**(6,181)**	**(14,852)**
Credited to Services		
Rent Allowance subsidy**	(16,628)	(15,545)
Housing Benefit administration subsidy	(190)	(200)
Rent rebate subsidy	(84)	(62)
Discretionary housing payments	(111)	(172)
Council Tax benefit administration subsidy	(79)	(78)
Business Rates cost of collection allowance	(204)	(206)
Recycling credits	(434)	(538)
Revenue Section 106 deposits	(382)	(521)
Electoral Commission – General Elections and European Elections	(283)	(18)
COVID-19 Additional Restrictions Support Grant	-	(1,178)
COVID-19 Additional Restrictions Support Grant (Top Up)	-	(223)
COVID-19 Track & Trace Administration Support Grant	-	(24)
COVID-19 Discretionary Business Grants Fund	-	(2,306)
COVID-19 Cold Weather Grant Fund	-	(6)
COVID-19 Compliance and Enforcement Grant	-	(35)
COVID-19 Council Tax Hardship Grant Fund	-	(508)
COVID-19 Local Restrictions Support Grant (Open)	-	(2,079)
Other grants	(669)	(627)
Total	**(19,064)**	**(24,326)**

S31 Business Rate Relief Grants

***The S31 Business Rate Relief Grants received in 2020/21 include the S31 compensation grant that local authorities were awarded to offset the business rate reliefs given to businesses during lockdown and the Tax Income Guarantee S31 grant for Business Rates, amounting to £6.28m in total.

Rent Allowance Subsidy

** Housing Benefit Payments and Subsidy have reduced significantly between 2020/21 and 2019/20 mainly due to a reduction in caseload.

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have repayment conditions attached to them. Until these conditions are met these grants are held as receipts in advance. Should these conditions not be met the monies would need to be returned to the grantor. The balances at the year-end are as follows:

Capital Grants Receipts in Advance	**31 March 2020 £000**	**31 March 2021 £000**
Section 106 Deposit – Penn Torr, Salcombe	(84)	-
BEIS Green Homes Grant	-	(1,026)
Other grants	(16)	(16)
Total	**(100)**	**(1,042)**

Revenue Grants Receipts in Advance	**31 March 2020 £000**	**31 March 2021 £000**
COVID-19 Business Rate Relief grant	(2,941)	-
COVID-19 Additional Restrictions Grant	-	(562)
COVID-19 Additional Restrictions Grant (Top Up)	-	(550)
COVID-19 LRSG (Open)	-	(215)
Other grants	(9)	(9)
Total	**(2,950)**	**(1,336)**

Long Term Revenue Grants Receipts in Advance (Section 106 Deposits)	**31 March 2020 £000**	**31 March 2021 £000**
Langage Energy Centre	(1,722)	(1,458)
Gara Rock, East Portlemouth	(523)	(523)
Land South East of Torhill Farm, Ivybridge	(511)	(489)
Land at Woodland Road, Ivybridge	(202)	(195)
Bonfire Hill, Salcombe	(185)	(184)
Land at Moorview, Marldon	(170)	(130)
Riverside, Totnes	(128)	(96)
Former Old Chapel Inn, Bigbury	(110)	(110)
Sawmills Field, Dartington	(98)	(77)
Trennels, Herbert Road, Salcombe	(93)	(93)
Webbers Yard, Dartington	(85)	(56)
Venn Farm, Brixton	(79)	(60)
Holywell Stores, Bigbury	(74)	(74)
Former Gas Works, Salcombe	(69)	(68)
Cornwood Road, Ivybridge	(214)	(214)
Land off Palm Cross Green, Modbury	(202)	(197)
Knighton Road, Wembury	(111)	(106)
Land East of Allern Lane, Tamerton Foliot	(105)	(105)
Land at Cornwood Road, Ivybridge	-	(97)
Yealm Hotel, Newton Ferrers	-	(139)
Various other sites	(1,026)	(1,254)
Total	**(5,707)**	**(5,725)**

31. RELATED PARTIES

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to bargain freely with the Authority.

Central Government
Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from Government departments are detailed in Note 30.

Members
Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2020/21 is shown in Note 27.

32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it, giving rise to the movement in the Council's Capital Financing Requirement.

During 2020/21 the Council incurred capital expenditure for the waste depot at Ivybridge (£1.2m) and recycling containers for the implementation of the Devon Aligned Service - a new recycling service (£0.6m). The total borrowing of £1.8 million is reflected in the movement in the Capital Financing Requirement (CFR) below.

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Summary of Capital Expenditure and Financing (incorporating the Capital Financing Requirement)	**2019/20 £000**	**2020/21 £000**
Opening Capital Financing Requirement	***6,291***	***11,494***
Capital Investment		
Property, Plant and Equipment	2,521	2,788
Investment Properties	4,996	-
Intangible Assets	10	179
Revenue expenditure funded from capital under statute (REFCUS)	1,788	1,404
Assets under Construction	371	1,274
Bank investment	-	
Total expenditure for capital purposes	**9,686**	**5,645**
Sources of Finance		
Capital receipts	(911)	(507)
Capital grants and external contributions	(2,260)	(1,338)
Earmarked reserves	(1,278)	(1,798)
Revenue	-	(150)
Total funding	**(4,449)**	**(3,793)**
Minimum Revenue Provision	**(34)**	**(344)**
Closing Capital Financing Requirement	***11,494***	***13,002***
Movement in Capital Financing Requirement	***5,203***	***1,508***
Explained by:		
Increase in underlying need to borrow (supported by government financial assistance)	5,054	(316)
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	149	1,824
Increase/(decrease) in Capital Financing Requirement	**5,203**	**1,508**

33. LEASES

Operating Leases

Authority as Lessee

The Authority uses certain land and buildings under the terms of operating leases. The most significant are:

Detail of lease	**Term**	**Expiry date**	**Segment in CIES**
A parcel of land for car parking	6 years	30.05.2023	Place and Enterprise
The fundus of the Salcombe & Kingsbridge Estuary for the provision of harbour activities	21 years	24.03.2028	Place and Enterprise

The future minimum lease payments due under these non-cancellable leases in future years are:

	31 March 2020 £000	**31 March 2021 £000**
N.B. Rentals for the fundus have been estimated based on income generated from certain harbour activities.		
Not later than one year	236	232
Later than one year & not later than five years	756	627
Later than five years	400	254
Total	**1,392**	**1,113**

The expenditure charged to the Commercial Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2019/20 £000	**2020/21 £000**
Minimum lease payments	170	230
Total	**170**	**230**

Authority as Lessor

The Authority leases various parcels of land and buildings to external organisations. The most significant are shown below:

Detail of lease	Term	Expiry date	Segment in CIES
The operation of a supermarket	99 years	20.12.2077	Investment Properties
The operation of a supermarket and residential accommodation	35 years	24.03.2031	Investment Properties
The rental of an industrial unit	25 years	31.05.2029	Place and Enterprise
The rental of office accommodation	20 years	24.07.2032	Place and Enterprise
The rental of office accommodation	10 years	29.09.2026	Place and Enterprise

The future minimum lease payments receivable under these non-cancellable leases in future years are:

	31 March 2020 £000	31 March 2021 £000
N.B. Rental income from the temporary accommodation has been estimated (based on rentals paid).		
Not later than one year	1,004	1,004
Later than one year & not later than five years	4,015	4,015
Later than five years	33,494	32,490
Total	**38,513**	**37,509**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

34. EXIT PACKAGES AND TERMINATION BENEFITS

The number of exit packages, with total cost per band and total cost of voluntary, compulsory and other redundancies are set out in the table below:

Exit package cost band (incl. special payments)	**Number of voluntary redundancies**		**Number of compulsory redundancies**		**Total number of exit packages by cost band**		**Total cost of exit packages in each band (£)**	
	19/20	**20/21**	**19/20**	**20/21**	**19/20**	**20/21**	**19/20**	**20/21**
£0 - £20,000	-	-	1	2	1	2	2,636	8,272
TOTAL	**-**	**-**	**1**	**2**	**1**	**2**	**2,636**	**8,272**

The exit package amount (£8,272 in 2020/21) is the cost of redundancy payment plus the cost of any pension strain payments.

Shared Services with West Devon Borough Council
Of the £8,272 cost of exit packages in 2020/21 (£2,636 in 2019/20), West Devon Borough Council (WDBC) made a contribution of £2,830 in 2020/21 £659 in 2019/20). In addition, South Hams District Council made a contribution of nil to West Devon Borough Council in respect of their exit package costs in 2020/21 (£76,919 in 2019/20).

35. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

The administering Authority for the Fund is Devon County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering Authority. Where appropriate some functions are delegated to the Fund's professional advisers.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out during 2022/23 (as at 31 March 2022) and will set contributions for the period from 1 April 2023 to 31 March 2026. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. Funding levels are monitored on an annual basis. The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2022 is £1.253m. The Actuary has estimated the duration of the Employer's liabilities to be 20 years.

Further information can be found in Devon County Council Pension Fund's Annual Report which is available upon request from The County Treasurer, Devon County Council, County Hall, Exeter, EX2 4QJ.

Transactions Relating to Post-employment Benefits

The cost of retirement benefits are recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The movement in the pension scheme assets and liabilities together with the treatment of the corresponding transactions in the CIES is summarised in the following tables.

Comprehensive Income and Expenditure Statement	**2019/20 £000**	**2020/21 £000**
Cost of Services		
Service cost comprising		
- Current Service Cost	(41)	2,599
Financing and Investment Income and Expenditure		
- Net Interest Expense	1,067	1,123
- Administration Expenses	71	65
Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services	**1,097**	**3,787**
Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement		
Re-measurement of the net defined benefit liability comprising;		
- Change in financial assumptions	(12,457)	33,174
- Change in demographic assumptions	(1,029)	(1,470)
- Experience loss/(gain)	3,913	(1,829)
- Return on fund assets in excess of interest	9,543	(19,385)
- Other actuarial gains/(losses) on assets	380	-
Total re-measurement recognised	*350*	*10,490*
Total post-employment benefits charged to the Comprehensive Income and Expenditure Statement	**1,447**	**14,277**
Movement in Reserves Statement		
- Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the code	1,097	3,787
Actual amount charged against the General Fund Balance for pensions in the year		
- Employers contributions payable to scheme	1,512	1,430

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

Net Pension Liability	**31 March 2020 £000**	**31 March 2021 £000**
Present value of the defined benefit obligation	129,835	161,989
Fair value of Fund assets	(83,985)	(103,353)
Deficit/(surplus)	**45,850**	**58,636**
Present value of unfunded obligation	2,654	2,715
Net defined benefit liability/(asset)	**48,504**	**61,351**

Reconciliation of opening and closing balances of the fair value of Fund assets	**31 March 2020 £000**	**31 March 2021 £000**
Opening fair value of Fund assets	**98,688**	**83,985**
Interest on assets	2,230	1,951
Return on assets less interest	(9,543)	19,385
Other actuarial gains/(losses)	(380)	-
Administration expenses	(71)	(65)
Contributions by employer including unfunded	1,512	1,430
Contributions by Scheme participants	458	481
Estimated benefits paid plus unfunded net of transfers in	(4,328)	(3,814)
Settlement prices received/(paid)	(4,581)	-
Closing fair value of Fund assets	**83,985**	**103,353**

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	**31 March 2020 £000**	**31 March 2021 £000**
Opening defined benefit obligation	**147,257**	**132,489**
Current service cost	2,702	2,599
Interest cost	3,297	3,074
Change in financial assumptions	(12,457)	33,174
Change in demographic assumptions	(1,029)	(1,470)
Experience loss/(gain) on defined benefit obligation	3,913	(1,829)
Liabilities assumed/(extinguished) on settlements	(7,938)	-
Estimated benefits paid net of transfers in	(4,137)	(3,622)
Past service costs, including curtailments	614	-
Contributions by Scheme participants	458	481
Unfunded pension payments	(191)	(192)
Closing defined benefit obligation	**132,489**	**164,704**

Basis for Estimating Assets and Liabilities

Assets and liabilities are assessed by Barnett Waddingham, an independent firm of actuaries. As required under IAS19 they use the projected unit method of valuation to calculate the service cost.

To assess the value of the Employer's liabilities at 31 March 2021, they have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2020, using financial assumptions that comply with IAS19.

To calculate the asset share they have rolled forward the assets allowing for investment returns (estimated where necessary), contributions paid into and estimated benefits paid from the Fund, by and in respect of the Employer and its employees.

The major assumptions are summarised in the table below:

Basis for estimating assets and liabilities	**31 March 2020**	**31 March 2021 (after CMI_2020 update)**
Mortality assumptions (in years):		
Longevity at 65 for current pensioners		
- Men	22.9	22.6
- Women	24.1	23.9
Longevity at 65 for future pensioners (in 20 years)		
- Men	24.3	24.0
- Women	25.5	25.4
Financial assumptions (in percentages):		
- RPI increases	2.7%	3.2%
- CPI increases	1.9%	2.8%
- Salary increases	2.9%	3.8%
- Pension increases	1.9%	2.8%
- Discount rate	2.4%	2.0%

Although the post retirement mortality tables adopted are consistent with the previous accounting date, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model, CMI_2020, which was released in March 2021. This update has been made in light of the coronavirus pandemic and reflects the latest information available from the CMI. The new CMI_2020 Model introduces a '2020 weight parameter' for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results.

The table below looks at the sensitivity of the major assumptions:

Sensitivity analysis	**£000s**	**£000s**	**£000s**
Adjustment to discount rate	+0.1%	0.0%	(0.1%)
Present value of total obligation	161,654	164,704	167,907
Projected service cost	3,813	3,946	4,083
Adjustment to long term salary increase	+0.1%	0.0%	(0.1%)
Present value of total obligation	164,493	164,704	164,466
Projected service cost	3,948	3,946	3,944
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	(0.1%)
Present value of total obligation	167,639	164,704	161,823
Projected service cost	4,082	3,946	3,814
Adjustment to life expectancy assumptions	+ 1 Year	None	-1 Year
Present value of total obligation	172,477	164,704	157,291
Projected service cost	4,119	3,946	3,779

The estimated asset allocation for South Hams District Council as at 31 March 2021 is as follows:

Employer asset share	**31 March 2020**		**31 March 2021**	
	£000	**%**	**£000**	**%**
Gilts	3,582	4%	3,514	3%
UK equities	11,176	14%	11,447	11%
Overseas equities	36,118	43%	53,375	52%
Property	7,912	10%	8,301	8%
Infrastructure	3,619	4%	4,188	4%
Target return portfolio	11,028	13%	9,730	9%
Cash	978	1%	1,066	1%
Other bonds	4,400	5%	4,634	5%
Alternative assets	5,172	6%	7,098	7%
Total	**83,985**	**100%**	**103,353**	**100%**

Of the total fund asset at 31 March 2021, the following table identifies the split of those assets with a quoted market price and those that do not:

Employer Asset Share – Bid Value		**31 March 2021**	
		% Quoted	**% Unquoted**
Fixed interest government securities	UK	0.1%	-
	Overseas	3.3%	-
Corporate bonds	UK	0.1%	-
	Overseas	2.3%	-
Equities	UK	11.1%	-
	Overseas	51.6%	-
Property	All	-	8.0%
Others	Absolute return portfolio	9.4%	-
	Private equity	-	4.1%
	Infrastructure	-	-
	Derivatives	0.1%	-
	Multi sector credit fund	6.8%	-
	Private debt	-	2.1%
	Cash/Temporary investments	-	1.0%
Net current assets	Debtors	-	0.1%
	Creditors	-	(0.1%)
Total		**84.8%**	**15.2%**

McCloud Judgement

A judgement in the Court of Appeal about cases involving judges' and firefighters' pensions (the McCloud judgement) has the potential to impact on the Council. The cases concerned possible age discrimination in the arrangements for protecting certain scheme members from the impact of introducing new pensions arrangements. As the Local Government Pension Scheme was restructured in 2014, with protections for those members who were active in the Scheme at 2012 and over the age of 55, the judgement is likely to extend to the Scheme.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud case. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published.

The valuation provided includes an allowance to reflect the Court of Appeal judgement. This allowance was described in the previous accounting report and incorporated into the accounting results as at 31 March 2020. These results, including the allowance, have been rolled forward and remeasured to obtain the accounting results as at 31 March 2021.

Based on available information, the actuary's view is that the final remedy is unlikely to have a materially different effect from the estimate already made.

36. CONTINGENT LIABILITIES

The transfer of the Council's housing stock in March 1999 resulted in a capital receipt of some £42m. As the stock transfer had to take place over a very short timescale, wide warranties were given to South Hams Housing (now LiveWest, previously Liverty) on staffing, environmental and other issues, (for example in relation to the existence of contaminated land, subsidence, etc.). These warranties were granted for 35 years from 1999. The purpose of these warranties is to safeguard the housing company if any of the main assumptions on which the transfer price was calculated turn out to be different in reality. Any liabilities that do arise will be funded from the Council's general reserves. Unfortunately, owing to the uncertainties surrounding any potential claim, it is not practicable to make an estimate of the total value of liabilities (if any).

37. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key Risks

Financial Instruments held by the Council are detailed in Note 14. The Council's activities expose it to a variety of financial risks:

- **Credit risk** – the possibility that other parties might fail to pay amounts due to the Council;
- **Liquidity risk** – the possibility that the Council might not have funds available to meet its commitments to make payments;
- **Market risk** - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements;
- **Re-financing risk** - the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its Financial Regulations/Standing Orders/Constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures regarding the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year;
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the Annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported to Members during the year.

The Annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council on 30 April 2020 and is available on the Council's website (Minute 86/19).

These policies are implemented by the Finance team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures from the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with Fitch and Moody's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

Institutions are split into colour bandings to determine the maximum level and duration of the investment.

The full Investment Strategy for 2020/21 was approved by Council on 30 April 2020 and is available on the Council’s website (Minute 86/19).

The Council’s Counterparty limits are as follows:

- £6.0 million for Money Market Funds
- £1.5 million on CCLA Property Investment Fund
- £2.0 million on CCLA Diversified Income Fund
- £6.0 million on term deposits with banks and building societies with the UK (£7.0 million with Lloyds Bank PLC, the Council’s bank).

The Council takes a very prudent approach regarding the collection of debts from its customers and calculates an annual provision for bad debts based on the age of its debt. A detailed review of potential bad debts was undertaken at 31 March 2021 and is reflected in the current figure of £545,000. This compares to £585,000 in 2019/20. The bad debt provision is adequate to deal with the historical experience of default and current market conditions. An analysis of the Council’s debtors is provided in Note 15 to the accounts.

The outbreak of Covid-19 has impacted global financial economies and there is an unprecedented set of circumstances on which to base a judgement of the likelihood of debt recovery. These provisions have been calculated using robust methodologies and adjustments have been made to reflect the uncertainties arising as a result of Covid-19.

Amounts Arising from Expected Credit Losses

The Council's short term investments have been assessed and the expected credit loss is not material therefore no allowances have been made.

	Balance at 31 March 2021	Historical Experience of Default	Estimated Maximum Exposure to Default and Uncollectability at 31 March 2021
	£000	**%**	**£000**
Deposits with Bank and Financial Institutions			
Aberdeen Standard Money Market Fund	6,000	0.000%	-
Blackrock Money Market Fund	6,000	0.000%	-
Deutsche Money Market Fund	5,200	0.000%	-
LGIM Money Market Fund	6,000	0.000%	-
Barclays Bank PLC	3,500	0.002%	-
Barclays Bank PLC	2,500	0.002%	-
Debt Management Office	3,600	0.001%	-
Lloyds Bank PLC	1,000	0.004%	-
Lloyds Bank PLC	5,000	0.013%	1
Total	**38,800**		**1**

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. An analysis of the Council's cash and cash equivalents is provided in Note 17 to the accounts.

This seeks to ensure that cash is available when needed.

The Council has ready access to borrowing from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Market Risk

The Council is exposed to market risk in terms of its exposure that the value of an instrument will fluctuate because of changes in:

- Interest rate risk;
- Price risk; and
- Foreign exchange rate risk.

Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in fixed interest rates would have the following effects:

- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements.

From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The Finance team will monitor markets and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

Price risk

The Council has an investment of £1.5 million in the CCLA Local Authorities Property Fund and £2.0 million in the CCLA Diversified Income Fund. At the end of each financial year the value of the Local Authority's investments are adjusted to equal the number of units held, multiplied by the published bid price.

The above investments have been elected as Fair Value through Other Comprehensive Income, meaning that all movements in price will impact on gains and losses recognised in the Financial Instruments Revaluation Reserve, therefore there will be no impact on the General Fund until the investment is sold or impaired.

Foreign exchange risk

The Council does not have any financial assets or liabilities denominated in foreign currencies, and thus has no exposure to loss arising from movements in exchange rates.

<u>Refinancing and Maturity Risk</u>

The Council maintains a debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the Finance team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

	Approved minimum limits	**Approved maximum limits**	**31 March 2020**		**31 March 2021**	
	%	**%**	**£million**	**%**	**£million**	**%**
Less than 1 year	0%	10%	0.092	0.6%	0.094	0.6%
Between 1 and 2 years	0%	10%	0.094	0.6%	0.096	0.7%
Between 2 and 5 years	0%	50%	1.016	7.0%	1.384	9.6%
Between 5 and 10 years	0%	50%	2.347	16.1%	2.361	16.3%
Between 10 and 20 years	0%	50%	4.294	29.5%	3.968	27.4%
More than 20 years	0%	100%	6.723	46.2%	6.571	45.4%
Total			**14.566**	**100.0%**	**14.474**	**100.0%**

38. ACCOUNTING POLICIES

a) General Principles

The **Statement of Accounts** summarises the Authority's transactions for the 2020/21 financial year and its position at the year end of 31 March 2021. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) (and statutory guidance issued under section 12 of the 2003 Act).

The accounting convention adopted in the **Statement of Accounts** is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounting policies are applicable to all of the Council's transactions including those of the Collection Fund (council tax and business rates).

b) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the **Statement of Financial Position** (also known as the Balance Sheet).

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the **Statement of Financial Position** (Balance Sheet). Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The Council operates a de minimis policy for accruals. For revenue and capital expenditure the de minimis has remained at £5,000 in 2020/21.

c) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that are readily convertible to known amounts of cash with insignificant risk of change in value. Our policy is shown in the following table:

Type of Investment	Settlement Terms	Gain/Loss on Sale	Cash Equivalent
Money Market Fund	T + 0	✗	✓
Call Account	T + 0	✗	✓
Notice Deposit	Maturity	✗	✗
Term Deposit	T + 7 days	✗	✓
Other Term Deposits	Maturity	✗	✗

Key: T = trade date

The Council's view is that investments made with an investment period of greater than 7 days would not be classified as cash equivalents because they are not sufficiently liquid to meet short term cash commitments.

In the **Cash Flow Statement**, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council’s cash management.

d) Material Items of Income and Expense

When items of income and expense are material (in excess of £500,000), their nature and amount is disclosed separately, either on the face of the **Comprehensive Income and Expenditure Statement** (CIES) or in the notes to the accounts, depending on how significant the items are to an understanding of the Council’s financial performance.

e) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

f) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the *Revaluation Reserve* against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. These charges are therefore replaced by the contribution in the *General Fund Balance*, by way of an adjusting transaction with the *Capital Adjustment Account* in the *Movement in Reserves Statement*, for the difference between the two.

g) Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to *Surplus or Deficit on the Provision of Services*, but then reversed out through the *Movement in Reserves Statement* so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy in exchange for those benefits. These benefits are charged on an accruals basis to the appropriate service or, where applicable, to the *Non Distributed Costs* line in the **Comprehensive Income and Expenditure Statement**, to end at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the *General Fund Balance* to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the *Movement in Reserves Statement*, appropriations are required to and from the *Pensions Reserve* to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are members of the Local Government Pensions Scheme, administered by Devon County Council. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Scheme is accounted for as a defined benefits scheme in the following way:

- The liabilities of the Devon County Council Pension Fund attributable to the Council are included in the **Statement of Financial Position** (Balance Sheet) on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and estimates of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate.

- The assets of the pension fund attributable to the Council are included in the **Statement of Financial Position** (Balance Sheet) at their fair value.

For further information please refer to Note 35.

The change in the net pension liability is analysed into the following components:

- **Service cost comprising:**
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the **Comprehensive Income and Expenditure Statement** to the services for which the employees worked
  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the *Surplus or Deficit on the Provision of Services* in the **Comprehensive Income and Expenditure Statement** as part of Non Distributed Costs
  - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the *Financing and Investment Income and Expenditure* line of the **Comprehensive Income and Expenditure Statement** – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- **Re-measurements comprising:**
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the *Pensions Reserve* as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the *Pensions Reserve* as Other Comprehensive Income and Expenditure
  - contributions paid to the Devon County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the *General Fund balance* to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the *Movement in Reserves Statement*, this means that there are appropriations to and from the *Pensions Reserve* to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the *Pensions Reserve* thereby measures the beneficial impact to the *General Fund* of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

h) <u>Events after the Reporting Period</u>

Events after the Reporting Period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the **Statement of Accounts** is adjusted to reflect such events

- those that are indicative of conditions that arose after the reporting period – the **Statement of Accounts** is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the **Statement of Accounts**.

i) Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the **Statement of Financial Position** (Balance Sheet) when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the *Financing and Investment Income and Expenditure* line in the **Comprehensive Income and Expenditure Statement** (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings held by the Council, this means that the amount presented in the **Statement of Financial Position** (Balance Sheet) is the outstanding principal repayable (plus accrued interest); and interest charged to the **CIES** is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

The three main classes of financial assets are measured at:

- Amortised cost
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Council's financial assets are therefore classified at amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the **Statement of Financial Position** (Balance Sheet) when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the *Financing and Investment Income and Expenditure* line in the **Comprehensive Income and Expenditure Statement** (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the **Statement of Financial Position** (Balance Sheet) is the outstanding principal receivable (plus accrued interest) and interest credited to the **CIES** is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the *Financing and Investment Income and Expenditure* line in the **CIES**.

Financial Assets measured at Fair Value through other Comprehensive Income (FVOCI)

The Council has equity instruments designated at fair value through other Comprehensive Income (FVOCI).

The Council has made an irrevocable election to designate its equity instruments as FVOCI on the basis that it is held for non-contractual benefits, it is not held for trading but for strategic purposes.

The asset is initially measured and carried at fair value.

Dividend income is credited to *Financing and Investment Income and Expenditure* in the **Comprehensive Income and Expenditure Statement** when it becomes receivable by the Council.

Changes in fair value are posted to *Other Comprehensive Income and Expenditure* and are balanced by an entry in the *Financial Instruments Revaluation Reserve*.

When the asset is de-recognised, the cumulative gain or loss previously recognised in *Other Comprehensive Income and Expenditure* is transferred from the *Financial Instruments Revaluation Reserve* and recognised in the *Surplus or Deficit on the Provision of Services*.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Fair Value

The Council measures some of its assets and liabilities at their fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability. The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

j) Government Grants and Contributions

General

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the **Comprehensive Income and Expenditure Statement** until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the **Statement of Financial Position** (Balance Sheet) as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or *Taxation and Non-Specific Grant Income* (non ring-fenced revenue grants and all capital grants) in the **Comprehensive Income and Expenditure Statement**.

Where capital grants are credited to the **Comprehensive Income and Expenditure Statement**, they are reversed out of the *General Fund Balance* in the *Movement in Reserves Statement*. Where the grant has yet to be used to finance capital expenditure, it is posted to the *Capital Grants Unapplied Reserve*. Where it has been applied, it is posted to the *Capital Adjustment Account*. Amounts in the *Capital Grants Unapplied Reserve* are transferred to the *Capital Adjustment Account* once they have been applied to fund capital expenditure.

k) Heritage Assets

Heritage assets are assets that are held by the Council principally for their contribution to knowledge or culture. The Council has reviewed its insurance and assets registers and has not identified any material assets that require disclosure.

l) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. As with Property, Plant and Equipment a de minimis level of £10,000 has been set for capitalisation.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over 3 years to the relevant service line(s) in the **Comprehensive Income and Expenditure Statement**.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation charges are not permitted to have an impact on the *General Fund Balance*. Therefore, these charges are reversed out of the *General Fund Balance* in the *Movement in Reserves Statement* and posted to the *Capital Adjustment Account*.

m) Inventories

Inventories are included in the **Statement of Financial Position** (Balance Sheet) at the lower of cost and net realisable value.

n) Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the *Financing and Investment Income and Expenditure* line in the **Comprehensive Income and Expenditure Statement**. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the *Financing and Investment Income* line and result in a gain for the *General Fund Balance*. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the *General Fund Balance*. The gains and losses are therefore reversed out of the *General Fund Balance* in the *Movement in Reserves Statement* and posted to the *Capital Adjustment*

Account and (for any sale proceeds greater than £10,000) the *Capital Receipts Reserve*.

o) <u>Jointly Controlled Operations</u>

Jointly controlled operations are activities undertaken by the Council in conjunction with other partners that involve the use of the assets and resources of the partners rather than the establishment of a separate entity. The Council recognises on its **Statement of Financial Position** (Balance Sheet) the assets that it controls and the liabilities that it incurs and debits and credits the **Comprehensive Income and Expenditure Statement** with the expenditure it incurs and the share of income it earns from the activity of the operation.

p) <u>Leases</u>

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets (i.e. embedded leases).

The Authority as Lessee

<u>Finance Leases</u>

The Council does not hold any finance leases as a lessee.

<u>Operating Leases</u>

Rentals paid under operating leases are charged to the **Comprehensive Income and Expenditure Statement** as an expense of the services benefitting from use of the leased property, plant or equipment. Where material, charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

The Council does not hold any finance leases as a lessor.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the **Statement of Financial Position** (Balance Sheet). Rental income is credited to the relevant line within the '*Cost of Services*' or '*Financing and Investment Income*' in the **Comprehensive Income and Expenditure Statement**. Where material, the rental income is credited on a straight line basis over the life of the lease, even if this does not match the pattern of payments.

q) Overheads and Support Services

Costs of overheads and support services are only recharged to services requiring full cost recovery including Salcombe Harbour. Apart from these exceptions support services are shown in the Customer Service and Delivery service group within the **Comprehensive Income and Expenditure Statement**, which is in line with the Council's internal reporting method.

r) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price

- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Assets are then carried in the **Statement of Financial Position** (Balance Sheet) using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost

- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

For non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the **Statement of Financial Position** (Balance Sheet) at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but at a minimum every five years. Increases in valuations are matched by credits to the *Revaluation Reserve* to recognise unrealised gains. Exceptionally, gains might be credited to the **Comprehensive Income and Expenditure Statement** where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the *Revaluation Reserve*, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the *Revaluation Reserve* or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the **Comprehensive Income and Expenditure Statement**.

The *Revaluation Reserve* contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the *Capital Adjustment Account*.

De minimis policy for capital controls and accounting purposes

CIPFA have not set specified de minimis levels and it is up to authorities to decide for themselves having regard to their particular circumstances.

In order to reduce the administrative burden a general de minimis limit of £10,000 has been set for the recognition of capital expenditure except for:

- Vehicles, Vessels and Plant for which the limit is £7,000
- Loans which have no limit

Component Accounting

The International Financial Reporting Standards (IFRS) code requires separate accounting for depreciation of significant components of assets that are:

- acquired on or after 1 April 2010

- enhanced on or after 1 April 2010

- revalued on or after 1 April 2010

Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge.

Significant components which have different useful lives and/or depreciation methods, will be accounted for separately.

Where a component is replaced or restored, the carrying amount of the old component shall be derecognised and the new component reflected in the assets carrying amount, subject to the recognition principles of capitalising expenditure. Derecognition of a component from the **Statement of Financial Position** (Balance Sheet) takes place when no future economic benefits are expected from its use. Such recognition and derecognition takes place regardless of whether the replaced part has been depreciated separately.

Assets eligible to be considered for componentisation are those classified within the following categories:

1. Operational Buildings
2. Assets Held for Sale

The following will be considered outside the scope for componentisation:

1. Non-Depreciable Land
2. Assets Under Construction
3. Investment Properties
4. Infrastructure
5. Plant and Equipment
6. Community Assets
7. Intangible Assets

The criteria for components to be separately valued are that:

De minimis threshold - *The overall gross asset value must be in excess of £400k to be considered for componentisation* ***and***

Materiality - *The component must have a minimum value of £200k* ***or*** *be at least 20% of the overall value of the asset (whichever is the higher)* ***and***

Asset lives - *The estimated life of the component is less than half of that of the main asset.*

All three rules above must be met to consider componentisation.
These rules will apply to revaluations and when replacing components within an asset.

Where enhancement is integral to the whole asset then unless there is significant evidence to the contrary, the asset life of the enhancement will have the same remaining life as the existing asset and will not be separately identified as a component.

Where assets are material and will therefore be reviewed for significant components, it is recommended that the **minimum** level of apportionment for the non-land element of assets is:

- Plant and equipment and engineering services
- Structure

The Valuer will assign to each standard property type a group of significant components common to all property assets within that property type.

Where a component is replaced the existing component shall be derecognised and the new component cost added to the carrying amount. The amount derecognised will be estimated based on the cost of the replacement part. This principle will apply to componentised and non-componentised assets.

Assets and asset components will be revalued in accordance with the annual valuation schedule agreed with the Valuer. The Valuer will be responsible for providing valuations apportioned in accordance with the assets property type.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. This formal impairment review is undertaken by the Council's Valuer. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the *Revaluation Reserve*, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the *Revaluation Reserve* or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the **Comprehensive Income and Expenditure Statement.**

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the **Comprehensive Income and Expenditure Statement**, up to the amount of the original loss, adjusted for depreciation, that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on a straight-line allocation over the useful life of the asset. Useful lives are determined on a case by case basis. Typical and maximum useful lives are:

Asset	Typical Useful Life	Maximum Useful Life
Buildings	Up to sixty years	Up to eighty years
Infrastructure	Up to twenty years	Up to fifty years
Refuse vehicles	Up to seven years	Up to ten years
Light vans	Up to seven years	Up to seven years
Marine vessels	Up to fifteen years	Up to fifteen years
IT equipment	Up to three years	Up to three years

For some assets, a residual value is held on the Asset Register. The residual value is the estimated amount which would currently be realised from the disposal of the asset after deducting selling costs. Residual values are recorded as £15,000 for Ferry Tugs and £6,000 for Ferry Floats, both of which are used in the operation of the Dartmouth Ferry. Refuse vehicles purchased before 2015/16 also have a residual value of £2,000.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost, being transferred each year from the *Revaluation Reserve* to the *Capital Adjustment Account*.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the *Other Operating Expenditure* line in the **Comprehensive Income and Expenditure Statement**. Gains in fair value are recognised only up to the amount of any losses previously recognised in the *Surplus or Deficit on Provision of Services*. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the **Statement of Financial Position** (Balance Sheet), whether Property, Plant and Equipment or Assets Held for Sale is written off to the *Other Operating Expenditure* line in the **Comprehensive Income and Expenditure Statement** as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the **Comprehensive Income and Expenditure Statement** also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the *Revaluation Reserve* are transferred to the *Capital Adjustment Account*.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

The written-off value of disposals is not a charge against council tax, as the cost of assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the *Capital Adjustment Account* from the *General Fund Balance* in the *Movement in Reserves Statement*.

s) Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the **Comprehensive Income and Expenditure Statement** in the year that the Council becomes aware of the obligation and are measured at the best estimate at the **Statement of Financial Position** (Balance Sheet) date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the **Statement of Financial Position** (Balance Sheet). Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the **Statement of Financial Position** (Balance Sheet) but disclosed in a note to the accounts. The Council operates a disclosure de minimis policy for contingent liabilities and assets of £50,000.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the **Statement of Financial Position** (Balance Sheet) but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

t) <u>Reserves</u>

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the *General Fund Balance* in the *Movement in Reserves Statement*. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the *Surplus or Deficit on the Provision of Services* in the **Comprehensive Income and Expenditure Statement**. The reserve is then appropriated back into the *General Fund Balance* in the *Movement in Reserves Statement* so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

u) Revenue Recognition

With the adoption of accounting standard IFRS 15, revenue is defined as income arising as a result of the Council's normal operating activities and where income arises from contracts with service recipients it is recognised when or as the Council has satisfied a performance obligation by transferring a promised good or service to the service recipient. Material revenue sources will be disclosed on the face of the **Consolidated Income and Expenditure Statement** and as part of Note 2, Material Items of Income and Expenditure.

Revenue is measured as the amount of the transaction price which is allocated to that performance obligation. Where the Council is acting as an agent of another organisation the amounts collected for that organisation are excluded from revenue.

The analysis carried out to date indicates that there will be no material impact on the revenue recognised in relation to the significant contracts entered into by the Council. A review will take place each year to identify whether any disclosure is necessary.

Further details of specific revenue recognition are provided in policies b) Accruals of Income and Expenditure and y) Accounting for Local Taxes.

v) Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the **Comprehensive Income and Expenditure Statement** in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the *Movement in Reserves Statement* from the *General Fund Balance* to the *Capital Adjustment Account* then reverses out the amounts charged so that there is no impact on the level of council tax.

w) Section 106 Deposits

Where repayment conditions exist, developer contributions are treated as revenue receipts (Long Term Liabilities in the Statement of Financial Position, also known as the Balance Sheet) unless a clear capital use is identified in the terms of the agreement. In the latter case they are defined as Capital Receipts in Advance. Where no conditions are attached to the agreement, they are either treated as capital grants unapplied or credited directly to services if revenue in nature.

x) Shared Services

South Hams District Council and West Devon Borough Council have been in a shared services arrangement since 2007. Following the implementation of the joint Transformation Programme (T18), all of the Councils' non-manual workforce are shared across both Councils.

Officers have produced a methodology for recharging the salary costs of shared officers based on the most appropriate cost driver and ratio to best reflect the officer's split of workload between the two Councils. Examples of the cost drivers used are caseloads, call volumes, property numbers, number of claims or cases processed etc, and other methods such as time recording. The work carried out includes establishing from the Heads of Practice/Group Managers the relevant recharge requirements for all of the non-manual workforce. On an annual basis, the Audit Committee approve the methodology for recharging the salary cost of shared officers.

y) VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

z) Accounting for Local Taxes

Billing authorities act as agents, collecting council tax and business rates on behalf of the major preceptors (including government for business rates) and, as principals, collecting council tax and business rates for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the *Collection Fund*) for the collection and distribution of amounts due in respect of council tax and business rates. Under the legislative framework for the *Collection Fund*, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and business rates collected could be less or more than predicted.

Accounting for Council Tax and Business Rates

The council tax and business rates income included in the **Comprehensive Income and Expenditure Statement** is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and business rates that must be included in the Council's *General Fund*. Therefore, the difference between the income included in the **Comprehensive Income and Expenditure Statement** and the amount required by regulation to be credited to the *General Fund* is taken to the *Collection Fund Adjustment Account* and included as a reconciling item in the *Movement in Reserves Statement*. The **Statement of Financial Position** (Balance Sheet) includes the Council's share of the end of year balances in respect of council tax and business rates relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

aa) <u>Minimum Revenue Provision</u>

The Council is not required to use Council Tax to fund depreciation, revaluation and impairment losses or amortisation of non-current assets. However, it is required to make an annual contribution from revenue towards provision for the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis or as determined by the Council in accordance with statutory guidance.

39. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) introduces changes in accounting policies that will have to be adopted fully by the Council in the 2021/22 financial statements i.e. from 1 April 2021.

The Council is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new/amended standard that has been issued, but is not yet required to be adopted by the Council.

It was originally envisaged that the financial impact of IFRS16 *Leases* would need to be disclosed in the 2019/20 Accounts. This standard will require local authorities that are lessees to recognise leases on their balance sheets as right-of-use assets with corresponding lease liabilities. However, CIPFA/LASAAC have deferred implementation of IFRS16 for local government until 1 April 2022 due to the COVID-19 pandemic. This is in line with decisions made by HM Treasury in respect of the UK public sector as a whole.

Following this deferral, it is not yet possible to determine the impact on the Council's financial performance or financial position.

40. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 38, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The cost drivers used to apportion Shared Service costs are appropriate and result in recharges which fairly reflect actual workloads and costs. The methodology for the apportionment of costs (predominantly staffing costs) are split on a defined basis which reflects the level of caseload attributable to each individual service. The methodology and mechanisms used to calculate the cost allocations are reviewed and reported to the Audit Committee on an annual basis. The final actual shared services split formulae are adjusted if they exceed a tolerance level of 3% from the original estimate.

SECTION 4. COLLECTION FUND

COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2021

This account reflects the statutory requirements for the Council as a billing Authority to maintain a separate Collection Fund. The statement shows the transactions of the billing Authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and business rates.

2019/20 Business Rates £000	2019/20 Council Tax £000		2020/21 Business Rates £000	2020/21 Council Tax £000
		INCOME		
-	(74,334)	Income from Council Tax	-	(77,229)
(29,646)	-	Business Rates Receivable*	(15,575)	-
3	-	Interest on Refunds	-	-
1,189	-	Less: Transitional Relief	377	-
(28,454)	**(74,334)**		**(15,198)**	**(77,229)**
		EXPENDITURE		
		Precepts, Demands and Shares:		
13,856	-	Central Government	14,244	-
2,494	52,852	Devon County Council	2,564	55,431
-	8,105	Devon & Cornwall Police	-	8,535
277	3,303	Devon & Somerset Fire Authority	285	3,398
11,085	8,779	South Hams District Council (net including Towns/Parishes)	11,395	9,299
585	-	Business Rates written off and change in impairment allowance	2,575	-
-	1,018	Council Tax written off and change in impairment allowance	-	362
436	-	Business Rates increase/(decrease) in provision for appeals	63	-
204	-	Business Rates – Costs of collection	206	-
		Distribution/collection of previous year's estimated surplus/(deficit):		
(512)	-	Central Government	744	-
1,390	685	Devon County Council	457	360
-	97	Devon and Cornwall Police	-	55
15	43	Devon and Somerset Fire Authority	20	22
596	112	South Hams District Council	814	60
30,426	**74,994**		**33,367**	**77,522**
1,972	**660**	**MOVEMENT ON BALANCE***	**18,169**	**293**

*** Business Rates Receivable in 2020/21 and the movement on the Collection Fund Balance**

During 2020/21 local authorities received S31 grants to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the S31 grants received in 2020/21 will not be discharged against the Collection Fund deficit until 2021/22 onwards. Therefore Business Rates Receivable have reduced by £14.1m in 2020/21 leading to an overall deficit on the Business Rates Collection Fund of £18.106m as at 31 March 2021, a movement of £18.169m. The S31 compensation grant will be applied to the Collection Fund over the next three years to smooth the impact of the Business Rates deficit.

1. Council Tax and Council Tax Base

In 2020/21, the Council's average Band D Council Tax was £1,990.82 (£1,913.04 in 2019/20). The charge for each band is a ratio of band D. The 2020/21 charges therefore were:

Band	Ratio to Band D	Council Tax (£)
Disabled A	5/9	1,106.01
A	6/9	1,327.21
B	7/9	1,548.42
C	8/9	1,769.62
D	1	1,990.82
E	11/9	2,433.22
F	13/9	2,875.63
G	15/9	3,318.03
H	18/9	3,981.64

These charges are before any appropriate discounts. The Council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes, appeals and new builds. The tax base estimate for 2020/21 was **38,508.49** as calculated below (**38,179.72** in 2019/20).

SECTION 4. COLLECTION FUND

Band	Dwellings per Valuation List	Adjustment for Disabled Banding Appeals, Discounts and Exemptions	Revised Dwellings	Ratio to Band D	Band D Equivalent
Disabled A	-	14.25	14.25	5/9	7.92
A	4,991	(858.50)	4,132.50	6/9	2,755.00
B	8,752	(1,021.00)	7,731.00	7/9	6,013.00
C	8,828	(816.75)	8,011.25	8/9	7,121.11
D	8,092	(559.25)	7,532.75	1	7,532.75
E	6,877	(474.50)	6,402.50	11/9	7,825.28
F	3,812	(193.25)	3,618.75	13/9	5,227.08
G	3,064	(180.75)	2,883.25	15/9	4,805.42
H	344	(20.00)	324.00	18/9	648.00
Total	**44,760.00**	**(4,109.75)**	**40,650.25**		**41,935.56**
Less allowance for non collection					(838.72)
Plus adjustment for armed forces dwellings					66.70
Other adjustments including Council Tax Support					(2,655.05)
Tax base					**38,508.49**

2. Rateable Value

The total business rates rateable value at 31 March 2021 was £86,832,255. This compares to £86,532,995 at 31 March 2020. The standard business rates multiplier was 51.2p in 2020/21 (2019/20 50.4p). Without reliefs this would generate a total income of £44,458,114.56 (2019/20 £43,612,629.48). These figures are a snapshot only and differ from the value of business rate bills issued due to changes in rateable values during the year, small business rate relief, void properties and charitable relief. In 2020/21 the Government also fully funded an expanded Retail, Hospitality and Leisure Relief scheme in response to the COVID-19 pandemic.

3. Collection Fund balance

2019/20 Business Rates* £000	2019/20 Council Tax £000		2020/21 Business Rates* £000	2020/21 Council Tax £000
(2,035)	(981)	Fund balance at 1 April	(63)	(321)
1,972	660	Deficit/(surplus) for year	18,169	293
(63)	**(321)**	**Fund balance as at 31 March – deficit/(surplus)**	**18,106**	**(28)**

***Business Rates Position 31 March 2021 (the deficit on the Collection Fund for Business Rates)**
During 2020/21 local authorities received S31 grants to offset the business rate reliefs given to businesses during lockdown. Under current Collection Fund accounting rules, the S31 grants received in 2020/21 will not be discharged against the Collection Fund deficit until 2021/22 onwards. Therefore Business Rates Receivable have reduced by £14.1m in 2020/21 leading to an overall deficit on the Business Rates Collection Fund of £18.106m as at 31 March 2021. The S31 compensation grant will be applied to the Collection Fund over the next three years to smooth the impact of the Business Rates deficit.

The balance on the Collection Fund is split between the preceptors as follows:

2019/20 Business Rates £000	2019/20 Council Tax £000		2020/21 Business Rates* £000	2020/21 Council Tax £000
242	-	Central Government	9,053	-
(279)	(233)	Devon County Council	1,630	(20)
-	(35)	Devon and Cornwall Police	-	(4)
(1)	(14)	Devon and Somerset Fire Authority	181	(1)
(38)	**(282)**	**Total deficit/(surplus) due to Preceptors**	**10,864**	**(25)**
(25)	(39)	South Hams District Council	7,242	(3)
(63)	**(321)**	**Fund balance as at 31 March – deficit/(surplus)***	**18,106**	**(28)**

***Business Rates Position 31 March 2021(the deficit on the Collection Fund for Business Rates)**
The deficit on the Business Rates Collection Fund as at 31 March 2021 of £18.106m is shared between the Preceptors and South Hams District Council as shown in the table above. The Preceptors element of this deficit is reflected in the significant increase in the Business Rates Debtor as at 31 March 2021 detailed in Note 15.

SECTION 5. STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS.

The Authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Chief Financial Officer) has responsibility for the administration of those affairs. In this Authority, that officer is the Section 151 Officer & Corporate Director of Strategic Finance;

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- approve the Statement of Accounts

The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.
- assessed the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error,

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the reporting date and of its income and expenditure for the year ended 31 March 2021.

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Lisa Buckle BSc (Hons), ACA
Corporate Director of Strategic Finance (Section 151 Officer)

28 October 2021

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit Committee at its meeting held on 28 October 2021.

Signed on behalf of South Hams District Council

…………………………………………….

Councillor L Austen

Chairman of the Audit Committee

SECTION 6. AUDITORS REPORT.

DRAFT Independent auditor's report to the members of South Hams District Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of South Hams District Council (the ‘Authority’) for the year ended 31 March 2021, which comprise the Comprehensive Income & Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) (“the Code of Audit Practice”) approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Corporate Director of Strategic Finance (Section 151 Officer) use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor’s opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Corporate Director of Strategic Finance (Section 151 Officer) conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority’s financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority’s disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Corporate Director of Strategic Finance (Section 151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Corporate Director of Strategic Finance (Section 151 Officer) with respect to going concern are described in the 'Responsibilities of the Authority, the Corporate Director of Strategic Finance (Section 151 Officer) and Those Charged with Governance for the financial statements' section of this report.

Other information

The Corporate Director of Strategic Finance (Section 151 Officer) is responsible for the other information. The other information comprises the information included in the Annual Governance Statement and the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Corporate Director of Strategic Finance (Section 151 Officer) and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities for the statement of accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Strategic Finance (Section 151 Officer). The Corporate Director of Strategic Finance (Section 151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Corporate Director of Strategic Finance (Section 151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporate Director of Strategic Finance (Section 151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government

Act 1972, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.

- We enquired of senior officers and the Audit Committee concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers and the Audit Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - journal entries posted during and post year-end; and
  - the significant accounting estimates in the financial statements, including those related to the valuation of property, plant and equipment, the net pensions liability and significant year-end accruals.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Corporate Director of Strategic Finance (Section 151 Officer) has in place to prevent and detect fraud;
  - journal entry testing, with a focus on large and unusual postings;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of land and buildings, investment property and the defined benefit pensions liability; and
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property and defined benefit pensions liability valuations].
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
  - knowledge of the local government sector; and
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation;
    - guidance issued by CIPFA, LASAAC and SOLACE; and
    - the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority’s operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement; and
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority’s arrangements in our Auditor’s Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor’s report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor’s Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for South Hams District Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

ACCRUALS	A sum included in the accounts to cover income or expenditure attributable to an accounting period for goods received or works done, but for which payment has not been received/made by the end date of the period for which the accounts have been prepared.
ACTUARIAL GAINS AND LOSSES	These are changes in actuarial deficits or surpluses that arise because either actual experience or events have not been exactly the same as the assumptions adopted at the previous valuation (experience gains and losses) or the actuarial assumptions have changed.
BALANCES	The surplus or deficit on any account at the end of the year. Amounts in excess of that required for day to day working may be used to reduce the demand on the Collection Fund.
CAPITAL EXPENDITURE	Expenditure on the acquisition of an asset or expenditure which adds to and not merely maintains the value of an existing asset.
CAPITAL RECEIPTS	Income received from sale of assets which is available to finance other capital expenditure or to repay debt on assets financed from loan.
CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)	The governing body responsible for issuing the statement of recommended practice to prepare the accounts.
COLLECTION FUND	A separate fund which must be maintained by a district for the proper administration of council tax and business rates.
CURRENT SERVICE COST	Amount chargeable to Services based on the Actuary's assessment of pension liabilities arising and chargeable to the financial year.
CURTAILMENTS	This is the amount the Actuary estimates as the cost to the Authority of events that reduce future contributions to the scheme, such as granting early retirement.

DEFINED BENEFIT SCHEME	A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
DEMAND	The charging authorities own Demand is, in effect, its precept on the fund.
FAIR VALUE	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
FEES AND CHARGES	In addition to the income from charge payers and the Government, local authorities charge for services, including Planning Consents, Hire of Sporting Facilities, Car Parking etc.
FINANCIAL INSTRUMENTS	A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.
GOVERNMENT GRANTS	Payments by Central Government towards the cost of local authority services, including both Revenue and Capital.
IMPAIRMENT ALLOWANCE ("BAD DEBT PROVISION")	Provisions against income to prudently allow for non collectible amounts.
INTEREST COST	For the pension fund this represents the discount rate at the start of the accounting period applied to the liabilities during the year based on the assumptions at the start of the accounting period.
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND THE CODE OF PRACTICE (CODE)	Formal financial reporting standards adopted by the accounting profession and to be applied when dealing with specific topics within its accounting Code. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

MINIMUM REVENUE PROVISION (MRP)	This is a statutory requirement to make an annual calculation of an amount or MRP considered prudent to offset against borrowings made under the Prudential Borrowing rules.
PAST SERVICE COST	These will typically be additional benefits awarded on early retirement. This includes added years or augmentation and unreduced pension benefits awarded before eligible retirement age in the pension scheme.
PRECEPT	The levy made by precepting authorities including the County Council and Parish Councils, on the District Council requiring it to collect the required income from council taxpayers on their behalf.
PROJECTED UNIT METHOD	An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.
RATEABLE VALUE	A value placed on all properties subject to Rating. The value is based on a national rent that property could be expected to yield after deducting the cost of repairs.
REVENUE EXPENDITURE	Recurring items of day to day expenditure consisting principally of salaries and wages, and general running expenses etc.
SETTLEMENTS	A settlement will generally occur where there is a bulk transfer out of the Pension Fund or from the employer's share of the Fund to a new contractor's share of the Fund as a result of an outsourcing. It reflects the difference between the IAS 19 liability transferred and the assets transferred to settle the liability.
STRAIN ON FUND CONTRIBUTIONS	Additional employers pension contributions as a result of an employee's early retirement.
SUNDRY CREDITORS	Amounts owed by the Council at 31 March.
SUNDRY DEBTORS	Amounts owed to the Council at 31 March.

South Hams District Council
Annual Governance Statement
2020-2021

1. Scope of Responsibility

South Hams District Council is responsible for ensuring that:

- its business is conducted in accordance with legal requirements and proper standards
- public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, South Hams District Council is also responsible for ensuring that there is a sound system of governance (incorporating the system of internal control) and maintaining proper arrangements for the governance of its affairs, which facilitate the effective exercise of its functions, including arrangements for the management of risk

South Hams District Council and West Devon Borough Council have been shared services partners since 2007. As two of the very first Councils to share a Chief Executive in 2007, the Councils have been bold in challenging the traditional local government model and have always been at the forefront of radical change and innovation.

Following an external recruitment process, we welcomed a new Chief Executive in June 2020. Along with the Senior Leadership Team (SLT), his role is to implement the plans and policies that support the strategic direction of the Council as set by Members. SLT are supported by an Extended Leadership Team that includes the principal people managers and professional lead officers in areas such as Housing, Planning, Environmental Health, Asset Management, Environment Services and Waste and Support Services such as Finance, Legal, and Human Resources.

The Council's Corporate Director of Strategic Finance is the officer with statutory responsibility for the administration of the Council's financial affairs as set out in section 151 of the Local Government Act 1972.

The S.151 Officer, who acts as the Chief Financial Officer (CFO), has responsibility for the administration of the financial affairs of the Council; will contribute to the corporate management of the Council, in particular through the provision of professional financial advice; will provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues to all Members and will support and advise Members and officers in their respective roles; and will provide financial information to the media, Members of the public and the community. (Constitution Article 10)

The CFO leads the promotion of good financial management including through the provision and publication of Financial and Contract Procedure Rules. The Council's S.151 Officer is a qualified accountant.

A review of the Council's arrangements against the CIPFA guidance on the Role of the Chief Finance Officer in Local Government has concluded that the recommended criteria have been met in all areas.

2. The Purpose of the Governance Framework

The governance framework comprises the cultural values, systems and processes used by the Council to direct and control its activities, enabling it to engage, lead and account to the community. The framework allows the Council to monitor the achievement of its strategic objectives and to consider whether appropriate, cost-effective services have been delivered.

A significant part of the framework is the Council's system of internal control which is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively and economically.

The governance framework was in place at South Hams District Council for the year ended 31 March 2021 and is expected to continue up to the date of approval of the Accounts by the Audit Committee.

This Statement explains how South Hams District Council has met the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA) and Society of Local Authority Chief Executive's (SOLACE) Framework Delivering Good Governance in Local Government Guidance Notes for English Authorities 2016.

Included within this framework are seven core principles of governance:

PRINCIPLE A

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

All Council decisions incorporate a legal implications section within the report and these are published on the Council's website. Officers and Members receive support from Legal Services in considering legal implications and if specialist legal advice is required then the Council will engage external advisors. The Section 151 Officer and Monitoring Officer have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal and financial requirements and for reporting any such instances to Members.

In addition the Council undertakes the following to ensure a strong commitment to ethical values and behaving with integrity:

- Staff are assessed against a set of key behaviours (known as 'IMPACT') to establish the right values and culture
- In order to promote ethical behaviours amongst Members and Officers, the Council has a number of policies such as those relating to procurement, whistleblowing, counter fraud and anti-money laundering. Through the Council's induction programme, employees are required to read the Employee Code of Conduct and confirm that they have understood the content. Any suspected cases of fraud, corruption and non-compliance with policy are investigated by the Council's Internal Audit Team.
- The Council has effective counter fraud and anti-corruption arrangements which are maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPA, 2014). Our anti-fraud and corruption policies are maintained in line with the code. The council also participates in the National Fraud Initiative (NFI).
- The Council's whistle-blowing policy, known as the Confidential Reporting Policy, is available to all staff on the Council's Intranet (including Frequently Asked Questions) and is also publicised internally on an occasional basis to maintain its profile. It was last reviewed and adopted by Members in July 2016 and is reviewed annually (along with the Council's regulatory framework) by the Statutory Officers' Panel and remains fit for purpose.
- The Council's Constitution also defines the roles of Members and officers. Part 5 of the Constitution includes a Protocol on Councillor / Officer Relations. The Protocol is a guide to Members and Officers in their dealings with each other, and applies equally to co-opted Members of Council bodies in their dealings with officers where appropriate.
- There are codes of conduct in place for Members and Officers which include arrangements for registering interests and managing conflicts of interest. The Officers' Code of Conduct was reviewed and agreed with the Unions in 2017-18. A Members' Code of Conduct is in place and is fit for purpose but

is due to review on the conclusion of the Local Government Association's consultation (and issue of) a new model code of conduct.

- The Overview and Scrutiny Panel is responsible for overseeing the Members' Code of Conduct and good governance by Members and its terms of reference are set out in the Constitution
- There is an effective Audit Committee in place with clear terms of reference, which oversees internal and external audit, the Constitution, Risk Management and regulatory policies.
- The Council has continued to operate a robust information governance regime. Information security breaches are reported to the Data Protection Officer (DPO) on a regular basis and are investigated by an officer within the Governance Directorate, with a report to the Information Commissioner where required. Information governance policies and procedures are reviewed and approved by the Information Governance Group on a regular basis. During 2020/21, the Council has appointed a dedicated Information Governance lead to oversee Data Protection and Information Management.
- During the year, the Council commenced a review of the democratic decision making process including frequency and timing of meeting, public participation in committee meetings and a review of Member working groups. This review will conclude in 2021/22.
- Annual IT health checks are undertaken which are conducted by accredited external security specialists. These are commissioned standard tests of system security, designed to assess our suitability for connection to government networks. Overall the security posture of the external network infrastructure was found to be excellent.
- There has been a significant focus on ensuring that the Council maintained good governance through the pandemic. This included transitioning all Committee meetings to online with public participation being maintained.

PRINCIPLE B

Ensuring openness and comprehensive stakeholder engagement

All Council business is conducted in public unless legislation deems it appropriate for it to be considered in private.

During 2020/21, all Committee and Council meetings were required to be held online in accordance with emergency Covid-19 powers. This meant that attendance by the public was by pre-arrangement only, for example where we know that they have requested to ask a question. All public meetings were streamed online for anyone to watch with papers available in advance on the Council's website (save where 'Exempt' under the Local Government Act 1972 following formal evaluation of the public interest).

The Council undertakes the following to ensure openness and comprehensive engagement:

- Publishes consultations and surveys on the Council website and uses a consultation checklist based on the Gunning Principles to structure consultations to ensure good communication guidelines are adhered to.
- Utilises social media on a daily basis including Twitter, Instagram, Facebook, LinkedIn and YouTube to provide instant information on Council services thus allowing for a free flow of comments from stakeholders.
- Uses dedicated Locality Engagement Officers to attend local events to canvas the opinions of stakeholders to help shape the delivery of Council services. This has however been impacted by the cancellation of many events and with social distancing and safe working practices implemented in response to Covid-19.
- Produces specific e-bulletins for various interest groups including Business, Housing, Neighbourhood Planning, etc.
- Publishes an Annual Report available on the Council website which openly demonstrates how Council resources are used.
- During 2020/21, the Council has developed and adopted a Consultation and Engagement Strategy setting out the principles that will guide our engagement in the future.

PRINCIPLES C AND D

Defining, optimising and achieving outcomes

The Council has a number of strategic documents and plans that guide its approach to achieving its vision and ensuring that it remains financially sustainable. The Council's adopted Priorities are confirmed in Article 6 of the Constitution and again are published on the Council's website.

The Council's policies, aims and objectives are well established and monitored at various levels for example forward plans, annual service planning process and personal development reviews.

Corporate Strategy

On 19th April 2019, the Executive adopted a series of desired outcomes for the period up until 2023

Read the current Corporate Strategy here

Much has changed since the Strategy was adopted (change in Council Leadership, Brexit and Covid-19 impacts) and the Executive have decided that the strategy must be updated to reflect how we will respond to these new challenges. This decision was also supported by Council.

A draft Corporate Strategy was considered in July 2021 with a period of consultation scheduled during the summer. The Draft Corporate Strategy, 'Better lives for all', a vision for South Hams can be found here. The final strategy will be considered for adoption in September 2021.

The final Corporate Strategy will be accompanied by detailed delivery plans setting out how we will work towards the desired outcomes.

Annual Report for 2020-2021

The Council's Annual Report sets out the Council's key achievements for 2020/21. This year's Annual Report is shorter than usual and places a significant emphasis on the Covid-19 response.

During 2021/22 the format and content of future Annual Reports will be reviewed in line with introduction of a new Performance Management Framework

The 2020/21 Annual Report can be seen here

Partnerships and Governance

The Council has a number of strong partnerships that help to deliver our Strategic Priorities. Regular updates are provided by key partnerships to Members with them being provided either formally to the Overview and Scrutiny Panel or informally through the weekly Member Bulletin.

During 2021-22, a mapping of key partnerships will be undertaken to support the delivery of our emerging Corporate Strategy and a Partnerships Framework implemented to clearly set out the governance arrangements for partnerships.

PRINCIPLE E

Developing capacity and capability

Through regular staff briefings, e-bulletins, team meetings and an online staff appraisal system, South Hams and West Devon ensure that all staff understand Corporate priorities and how their work contributes to their delivery.

The Councils have a staff appraisal scheme, complimented by a Learning and Development Strategy that places the opportunity for individuals to continually improve at its heart. It gives everyone the opportunity to evidence both what they do and how they do it, to seek professional and personal guidance and support, and to identify any learning and development needs.

The Councils are committed to providing opportunities for young people and have an apprenticeship scheme, and participates in the Government's Kickstart scheme that provides work placement opportunities for young people who are out of work or education.

The Council also undertakes the following to develop capacity and capability:

- •Delivers an induction programme for Officers and Members
- •Provides a Member training and development programme
- •Promotes to staff the use of “Learning Pool” an extensive online learning resource
- •Delivers focused training on specific issues (e.g. complaints, data protection)
- •Delivers a rolling development programme for supervisory staff
- •Works in partnership with local authorities and other bodies to achieve economies of scale
- •Conducts a staff survey to gauge employee satisfaction and assist in improving how the organisation performs. The survey results have shown significant improvement over the past 4 years.
- •The Council holds an annual Staff Awards ceremony to recognise outstanding performance, and highlights compliments paid to staff from customers and colleagues in the~~is~~ weekly staff bulletin

During ~~2021~~2021/22~~1~~, there will be a refocus on ensuring a clear ‘golden thread’ of individual objectives to our corporate priorities so that every member of staff is able to clearly see how they contribute to our overall successes.

PRINCIPLE F

Managing risks and performance

There is a culture of risk ownership and management throughout the Council with Strategic Risks being logged centrally and are updated regularly. Additionally during this year where the risk profile of the Council and its services was changing at pace in response to the global pandemic, detailed analysis of service risks was carried out on a regular basis by the Incident Management Team. This team met three times a week throughout the year for short, focused discussions on risks and progressed mitigations.

For each risk, the uncertainties are identified, along with the consequences, likelihood of occurrence and strategic impacts that would result. The Council’s Senior Leadership Team review the corporate risk log quarterly and updates are reported to Elected Members via the Audit Committee on a biannual basis.

Elected Members also have the opportunity to raise concerns with the mitigating actions being taken by officers and can suggest new risks for consideration.

The pandemic significantly impacted the 2020/21 risk register, with most risks being directly or indirectly negatively impacted by Covid-19. An Incident

Management Team was formed in March 2020 to oversee impacts on the Council and to implement mitigations.

Throughout the year, the Incident Management Team have continued to monitor and identify risks and implement mitigations, meeting three times a week to consider impacts. The Incident Management Team have had a clear escalation route to the Senior Leadership Team when additional governance and mitigations are required.

The Statutory Officers' Panel has important links with the Audit Committee and the Overview & Scrutiny Panel. It has a rolling programme of works which are set out in a Forward Plan.

All Committee reports include a reference where relevant to the potential impact on the Council's priorities and corporate strategy themes, and address as appropriate any financial, staffing, risk, legal and property implications, and are monitored by appropriate senior officers (including the S151 Officer and the Monitoring Officer).

With regards to managing performance throughout the year we have continued to maintain performance to meet the needs of our customers.

We have systematically reviewed areas of poor performance, streamlined processes, embedded new IT solutions and delivered staff training.

To manage performance the Council ensures the following:

- Continuous managerial review of services to ensure continuous improvement and the economic, effective and efficient use of resources
- Financial management arrangements, where managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures. Quarterly budget monitoring reports are presented to the Executive.
- Active performance management arrangements including regular reports to Overview & Scrutiny Panel and Development Management Committee on performance measures
- A robust complaints/ compliments procedure is in place and is widely publicised, with the Ombudsman's Annual Report being reported to the Overview and Scrutiny Panel
- Freedom of Information requests are dealt with in accordance with established protocols

PRINCIPLE G

Implementing good practices in transparency, reporting, and accountability

The Council follows the Government Communication Service guidance on providing clear and accurate information and has a number of measures in place to demonstrate transparency and accountability.

An Audit Committee meets five times a year and its role is to provide an oversight of the financial reporting and audit processes plus the system of internal controls and compliance with laws and regulations.

The Council also has two internal audit staff managed by the Devon Audit Partnership who provide an opinion on the internal control environment and governance processes. In March 2019 (Minute A.53/18), it was recommended to Council for South Hams to join the Devon Audit Partnership as a 'nonvoting' partner. This was approved by Council in March 2019 with the Council joining the partnership as a nonvoting partner from 1 April 2019.

Three applications for exemptions to Contract/Financial Procedure Rules were received in the year, two were approved and one remains for approval.

External audit was provided by Grant Thornton for 2019/20 and in October 2020 they reported that they had concluded that the Council had made proper arrangements to secure economy, efficiency, and effectiveness in its use of resources. (The 2020/21 Accounts will be reported on by Grant Thornton by September 2021).

To further ensure transparency the council undertakes the following:

- Provide training to Members on the Overview and Scrutiny Panel on effective scrutiny practices
- Ensure all Member decisions are formally minuted
- Streams all of its public meetings online
- Publishes all Council decisions online together with background reports
- Produces an Annual Report detailing Council performance and spend

Process for maintaining and reviewing effectiveness of the Council's Governance arrangements

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This responsibility is in practice carried out by Senior Managers, with the Chief Executive informing the Executive of any significant matters warranting their attention. The Council ensures the delivery of services in accordance with Council policies and budgets, which includes long term financial planning, good financial management and ensuring up to date risk management across the Council. The Overview and Scrutiny Panel is responsible for performing a review function and on 1st April 2021 they considered their Annual Report for 2020/21, which set out a summary of the work programme they have considered during that year. The Annual Report of the Committee can be seen here (O&S.53/19)

The Audit Committee

The Audit Committee has a specific role in relation to the Council's financial affairs including the internal and external audit functions and monitors the internal workings of the Council (broadly defined as 'governance'). It is responsible for making sure that the Council operates in accordance with the law and laid down procedures and is accountable to the community for the spending of public money. The Audit Committee will provide:-

i) independent assurance of the adequacy of the risk management framework and the associated control environment

ii) independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment

iii) oversees the financial reporting process.

The review of effectiveness of the system of internal control is informed by three main sources: the work of Internal Audit; by managers who have responsibility for the development and maintenance of the internal control environment; and also by comments made by external auditors and other review agencies/inspectorates.

Internal Audit

The Council's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2011. This responsibility is delegated to the S151 Officer.

The Internal Audit Shared Service Team operates in accordance with best practice professional standards and guidelines. It independently and objectively reviews, on a continuous basis, the extent to which the internal control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic, efficient and effective use of resources. All audit reports go to the Senior Leadership Team who agree any recommendations. Members receive an annual report of internal audit activity and approve the annual audit plan for the forthcoming year.

The Internal Audit annual report for 2020/21 was considered by the Audit Committee on 1st July 2021. The report contains the Head of Internal Audit's Opinion for the 2020/21 year which is that of "Reasonable Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

The Covid-19 pandemic impacted on the ability of the Internal Audit Team to carry out the full planned programme of audits with 70% of planned Audits being carried out. This was primarily due to the involvement of the internal audit team on supporting the delivery of Government business support grants related to the pandemic.

Senior Managers

Individual managers are responsible for establishing and maintaining an adequate system of internal control within their own sections and for contributing to the control environment on a corporate basis. There are a number of significant internal control areas which are subject to review by internal audit. All managers acknowledge their responsibilities and confirm annually that they have implemented and continuously monitored various significant controls.

External auditors and other review agencies/inspectorates

Our external auditors (Grant Thornton) will issue their 'External Audit Report ISA260 report' for 2020/21 in September 2021 which will be considered by the Audit Committee. The document will summarise their key findings in relation to their external audit of the Council for 2020/21 and will contain an opinion on the Council's financial statements, the control environment in place to support the production of timely and accurate financial statements and the Council's significant risk areas.

The key messages from Grant Thornton's External Audit 'The Audit Findings ' report for 2020/21 (which will be presented to the Audit Committee in September 2021) will be inserted here in September 2021

Value for Money (VFM) arrangements

The key message from Grant Thornton's External Audit 'The Audit Findings' report for 2020/21 will be inserted here in September 2021.

Grant Thornton's Value for Money work will provide a commentary on the work Grant Thornton have undertaken to address the key elements of governance, financial sustainability and how to improve economy, efficiency and effectiveness.

Significant Governance Issues

The following action plan has been drawn up to address the weaknesses identified and ensure continuous improvement of systems or to deal with governance issues:

Issues and action plan from the System of Internal Control		
Issue Identified	**Action to be Taken**	**Responsible Officer & Target Date**
Financial Uncertainty The Council continues to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending and the additional pressures as a result of Covid-19 The Council has to be entirely independent to fund all of its services on a net budget of just over £9million, as the District Council no longer receives any main Government Grant (Revenue Support Grant). A Member budget workshop was held on 27th August 2020 to explore potential options for addressing the budget shortfall for the current financial year. At their meeting on 24th September 2020, Full Council approved a revised budget for 2020/21 with measures totalling £1.313m being agreed. The Deputy S151 Officer continues to submit monthly DELTA returns to Central Government that details the current additional expenditure and loss of income streams suffered by the Council on a monthly basis (due to Covid19), with predictions for future months. The financial forecasts are based on a number of assumptions including the level of income losses and support from the Government. In addition there continue to be a number of uncertainties that could affect the financial position in the future. These include the impact of further waves and any additional restrictions imposed. The S151 Officer will continue to monitor income streams and the overall impact of Covid-19.	The Council will prepare its Medium Term Financial Strategy for the period covering 2022/23 to 2024/25 and this will be presented to the Executive at its September 2021 meeting, alongside the Budget Monitoring report for the first few months of 2021/22. The Council will continue to respond to national funding consultations and lobby alongside other Devon Councils and national organisations such as the District Councils' Network for a multi-year financial settlement, to aid long term strategic financial planning. The Budget Gap over the next two years is likely to be in excess of £0.8million and work is already underway to address this. Much will also depend on the next Government financial settlement for 2022/23 and confirmation on funding items like Negative Revenue Support Grant.	Director of Strategic Finance By September 2021

Issues and action plan from the System of Internal Control

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<u>Delivery of Waste and Recycling Changes</u> The Council's Waste and Recycling Provider began to implement its 'Super Recycler' scheme in March 2021. Implementation of waste changes has been impacted by a range of issues resulting in an unacceptable level of missed collections per week and jeopardised the roll out of the new recycling service (Devon Aligned Service) Major issues with the new service are being experienced at the time of the update. The Council is working with FCC (the Council's contractor) to resolve ongoing issues through an Improvement Plan. An extraordinary meeting of the Overview and Scrutiny Committee was held on 10th June 2021 to receive an update from the Portfolio Holder for Waste and Recycling on the progress in resolving the issues. On 17th June 2021, an Extraordinary meeting of Council was held to discuss performance and receive an Improvement Plan from FCC. In the short term, 26,000 residents will continue to have their recycling sorted at the kerbside into the new vehicles. 11,000 residents will have their recycling collected in a different vehicle and it will be sorted at a local sorting facility. 8,000 residents will remain on the clear and blue sack system for the time being.	Continuous dialogue between the Council's contractor (FCC) and the Council. Action plan being monitored and South Hams staff supporting FCC on the ground. Executive meet with FCC Directors on a weekly basis to monitor the situation and ensure progress in resolving the issues. Improvement plan being considered and subject to continuous monitoring.	Deputy Chief Executive – September / 2021

Issues and action plan from the System of Internal Control		
Issue Identified	**Action to be Taken**	**Responsible Officer & Target Date**
All residents are being asked to continue to separate their recycling following the instructions, regardless of which vehicle arrives on their collection day. The Executive Director Service Delivery has embedded a number of Council Officers within FCC to support them with rectifying the issues.		
Business Continuity Management Strategy and Work Programme On 7th February 2019, the Executive considered a Business Continuity Strategy and Work Programme (Minute E.74/18). The Management Strategy and Work Programme was adopted. During 2018/19, an Internal Audit review noted that there were 'Fundamental Weaknesses' primarily due to not ensuring Business Continuity Plans were kept updated (or missing). During 2019/20, a further review noted that updated plans were now in place and considered that the overall status had improved to 'Improvements Required' At the end of 2019/20, the leadership team undertook an extensive review of our business continuity arrangements along with in depth planning sessions including responding to a pandemic flu outbreak. This put the Council in a good position to act quickly in response to Covid19.	A work programme is in place and will continue to be updated. Incident Management Team to continue to meet to assess the business continuity implications of Covid-19 and the anticipated additional pressures over the summer	Head of Practice (Environmental Health)/ Director Customer First and Support Services Timescales as set out in Work Programme Head of Practice (Environmental Health) / Head of Strategy August 2021

Issues and action plan from the System of Internal Control		
Issue Identified	**Action to be Taken**	**Responsible Officer & Target Date**
Covid-19 Response & Recovery The Covid-19 pandemic required the Council to quickly take action to ensure compliance with government guidance. While the full impact will not be understood for some time, immediate impacts are being considered and a recovery plan being developed. The pandemic has significantly increased the Councils risk profile in a number of areas:- **Financial Sustainability** See 'Financial Uncertainty' issue at the top of this table for update **Impact on Business as Usual activities** The Council is fortunate that it was quickly able to require the majority of its employees to work from home, even ahead of formal government guidance. This mitigated any spikes in sickness absence or impact on service provision in many areas in the first couple of weeks of the lockdown. We have however had to refocus areas such as business rates and housing teams to focus on the Business Grants scheme and our Community Response. This has had an impact on service delivery	Continue to monitor resource demands as a result of pandemic	Director Customer Service & Delivery with support from Incident Management Team Ongoing

Issues and action plan from the System of Internal Control		
Issue Identified	**Action to be Taken**	**Responsible Officer & Target Date**
Impact on Corporate Priorities The Council has adopted its corporate priorities and desired outcomes for the period to 2023 based on its Medium Term Financial Plan. Clearly the impact of Covid-19 has had a significant impact on the Council's ability to achieve its desired outcomes and they have therefore been reviewed. A draft Corporate Strategy has been developed during 2020/21 with adoption proposed for September 2021	Commence public consultation on draft Corporate Strategy, 'Better Lives for all'. Develop detailed delivery plans for Corporate Strategy in order for Council to consider adoption	Head of Strategy August 2021 Director of Governance / Head of Strategy September 2021
Changes to Council Governance arrangements The Councils have been fortunate that Officers and Members have been using remote meeting technology for some time. As soon as the legislation to enable remote meetings was passed, we were able to recommence meetings for essential business and enable the democratic process to function. Since May 2021, Council have had to resume face to face meetings which does pose challenges while we continue to deliver on our duty of case to Members and employees which means many of our rooms are too small to maintain social distancing. To date, South Hams Full Council meetings have been held in the West Devon Council Chamber.	Develop plans for immediate issue of meetings for September 2021 being held at Follaton House Support lobbying government for new legislation which enables remote and/or hybrid meetings	Director of Governance August 2021 Chief Executive December 2021

Issues and action plan from the System of Internal Control		
Issue Identified	**Action to be Taken**	**Responsible Officer & Target Date**
Internal and External Audit Reports Some issues have been identified in audit reports by the Council's shared in-house internal audit team and the Council's external auditor, Grant Thornton Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed where appropriate	All remedial actions detailed in external and internal audit reports will be completed in line with the agreed timescales. These actions will be monitored by the auditors' 'follow up' procedures.	Extended Leadership Team (ELT) S151 Officer Internal Audit Manager In line with agreed timescales

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

CONCLUSION

The Council is satisfied that appropriate governance arrangements are in place. However it remains committed to maintaining and where possible, improving these arrangements, in particular by addressing the issues identified by Internal Audit and External Audit in their regular reports to the Audit Committee.

Signed:

Cllr J Pearce
Leader of South Hams District Council

Signed:

Andy Bates Chief Executive
On behalf of South Hams District Council

Date: 28th October 2021

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Report to:	**Audit Committee**
Date:	**28 October 2021**
Title:	**Annual Treasury Management Report 2020/21**
Portfolio Area:	**Cllr H Bastone – Finance and Assets**
Wards Affected:	**ALL**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken**: N/A**

Author:	Clare Scotton	Role:	**Finance Business Partner**
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Contact:	**Email:** **clare.scotton@swdevon.gov.uk**		
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Recommendations:

That the Audit Committee:

1. Approves the actual 2020/21 prudential and treasury indicators in this report.

2. Notes the Annual Treasury Management report for 2020/2021.

1. Executive summary

1.1 Income from investments this year was £207,288 which is £4,288 higher than the budget of £203,000 at an average return of 0.13%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 0.05%. Therefore the Council achieved 0.08% return on investments over the benchmark for 20/21.

1.2 Bank Base rate was at an all time low of 0.1% during the majority of the financial year, which was implemented by the Bank of England in order to counter the negative impact of the national lockdown on large swathes of the economy. The Council's return on investments of 0.13% reflects the fact that investments were kept very short term due to the pandemic and concerns over cashflow as there were many unknown variables such as the impact of the pandemic on key income streams.

2. Background

2.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.2 Treasury management is defined as:

"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks "

2.3 During 2020/21 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Minute C86/19)
- A mid-year (minimum) treasury update report (Minute A22/20)
- An annual review following the end of the year describing the activity compared to the strategy (this report)

2.4 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities.

This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

2.5 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during 2020/21 in order to support Members' scrutiny role.

3. The Economy and Interest Rates

3.1 **UK. Coronavirus.** The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown, so much less damage was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.

3.2 **BREXIT.** The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

3.3 The **Monetary Policy Committee** cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

3.4 **Average inflation targeting.** This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and ***achieving the 2% target sustainably***". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years.

4. Overall Treasury Position as at 31 March 2021

4.1 At the beginning and the end of 2020/21 the Council's treasury position was as follows:

Treasury Portfolio	**31 March 2020**		**31 March 2021**	
	£'000	**Rate%**	**£'000**	**Rate%**
Treasury Investments:				
Short term – fixed	15,500	0.91	15,600	0.01
Money Market Funds	16,100	0.41	23,200	0.00
Heritable Bank	22	-	11	-
CCLA – LAPF	1,348	4.41	1,338	4.30
CCLA – DIF	1,792	3.61	1,942	3.10
Total treasury investments	**34,762**		**42,091**	
Treasury External Borrowing				
PWLB	14,567	2.49	14,474	2.49
Total external borrowing (£14.381m of long term borrowing and £94k of short term borrowing)	**14,567**		**14,474**	
Net treasury investments / (borrowing)	**20,195**		**27,617**	

4.2 The following is a list of the Council's investments at 31 March 2021.

<u>Fixed Term Deposits</u>

Amount	**Investment**	**Interest rate**
£3,500,000	Barclays Bank plc	0.05%
£2,500,000	Barclays Bank plc	0.01%
£3,600,000	Debt Management Office	0.00%
£5,000,000	Lloyds Bank plc	0.03%
£1,000,000	Lloyds Bank plc	0.10%
£15,600,000	**Total**	

<u>Money Market Funds</u>

Amount	**Investment**	**Interest rate**
£6,000,000	Aberdeen Standard Investments	0.00%
£6,000,000	BlackRock	0.00%
£5,200,000	Deutsche	0.00%
£6,000,000	LGIM	0.01%
£23,200,000	**Total**	

CCLA Funds

Amount	Investment	Dividend Yield
£1,338,007	CCLA – Property Fund	4.30%
£1,942,283	CCLA – Diversified Income Fund	3.10%
£3,280,289	**Total**	

4.3 At 31 March 2021, the Council had investments of £1.5million with the CCLA Property Fund and £2million with the CCLA Diversified Income Fund. On 29 March 2018, the Council made the decision to invest £500,000 in the CCLA Local Authority Property Fund and £1million in the CCLA Diversified Income Fund in 2018/19. The investment was increased from £1.5m to £3.5m at Council on 21st February 2019 (Minute CM53/18).

4.4 The investment was made with a view to a long term commitment. The bid market value as at 31 March 2021 for the Council's investments were £1,338,007 (Local Authorities Property Fund) and £1,942,283 (Diversified Income Fund).

Investment in the South West Mutual Bank

4.5 In 2018/19 the Council approved making a £49,995 investment in the South West Mutual Bank which took the form of a shareholding in the Bank. As the investment was supporting the local economy, it was financed from the business rates pilot gain.

4.6 In addition to supporting the local economy, the new Mutual will promote inclusive growth. In particular, it will help make banking more local, provide branch facilities in rural locations, recycle the savings of local people and businesses back into the regional economy, promote financial inclusion and improve access to credit for small and medium sized businesses. The ethos behind the new Mutual was consistent with the Council's corporate strategy themes of communities and enterprise.

4.7 The investment did not have the primary purpose of deriving a financial return and the Council recognised at the time that the funds utilised may not necessarily be returned to the Council. Therefore the investment was written down to Nil during 2018/19.

4.8 The coronavirus pandemic and its economic consequences have caused significant delay to the planned timetable for obtaining a banking licence. Investment conditions were severely impacted during the year under review. The Directors took early mitigating actions to protect the Society's financial position by reducing costs significantly. This required reducing the use of contractors and placing staff on furlough, consequently reducing the rate of progress in preparing to apply for a banking licence.

4.9 Furthermore, the Directors have had to consider the implications of two material issues.

4.10 First, a long-awaited ruling from the FCA (Financial Conduct Authority) Mutuals Register received at the end of May 2021 is disadvantageous for Societies registered under the Co-operative and Community Benefit Societies Act 2014 that are seeking to establish a start-up bank. Inflexibility about the price at which shares can be issued is likely to make it harder to raise capital. The Directors are pursuing a solution to this which they will update members on in due course.

4.11 Secondly, independent legal advice on competition law was sought. The Directors believe the outcome of this exercise was positive for the Society's business model, commercial viability and member benefit, but it did require significant management and board time and attention given the importance of the issue.

4.12 The formal licence application is expected to take up to 12 months. Preparations to make a formal application are very dependent on fundraising and could take between 9 and 18 months. While this delay is disappointing, the Directors consider that the ability of the Society to have continued through these challenging circumstances is a positive result.

4.13 The Directors' fundraising plans remained unchanged in that, the next round of fundraising is planned to finance the Society's activities through to obtaining a provisional banking licence (Authorisation With Restrictions) at which point a third major fundraising will be required to capitalise the bank in order to commence trading.

5. The Strategy for 2020/21

Investment strategy and control of interest rate risk

5.1 Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

5.2 Whilst the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.3 The Treasury Management Strategy Report for 2020/21 was approved by the Council on 30 April 2020 (Minute – C86/19).

Borrowing strategy and control of interest rate risk

5.4 During 2019/20, the Council's capital borrowing need, (the Capital Financing Requirement), was fully funded with loan debt.

5.5 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

5.6 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

5.7 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Strategic Finance (S.151 Officer) therefore monitored interest rates in financial markets and adopted a pragmatic approach to changing circumstances:

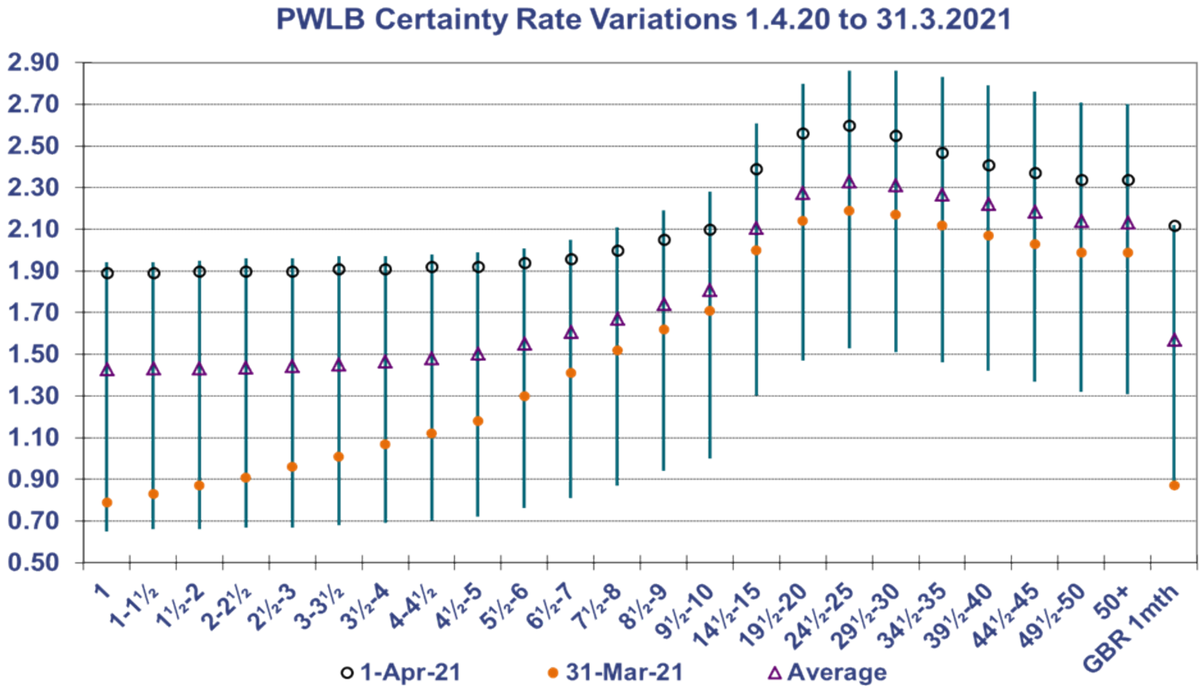
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

5.8 The current Interest Rate forecast at August 2021 is below:

Link Group Interest Rate View			10.8.21								
	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25	0.50
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30	0.50
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.50	0.50
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.70
5 yr PWLB	1.20	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.50	1.50
10 yr PWLB	1.60	1.60	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00
25 yr PWLB	1.90	2.00	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.40	2.50
50 yr PWLB	1.70	1.80	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.30

5.9 Actual PWLB borrowing rates - the graph below shows, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.65%	0.72%	1.00%	1.53%	1.32%
Low date	04/01/2021	11/12/2020	11/12/2020	11/12/2020	11/12/2020
High	1.94%	1.99%	2.28%	2.86%	2.71%
High date	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
Average	1.43%	1.50%	1.81%	2.33%	2.14%
Spread	1.29%	1.27%	1.28%	1.33%	1.39%

5.10 PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the

EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession.

5.11 Gilt yields fell sharply from the start of 2020 and then spiked up during a financial markets melt down in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. While US treasury yields do exert influence on UK gilt yields so that the two often move in tandem, they have diverged during the first three quarters of 2020/21 but then converged in the final quarter. Expectations of economic recovery started earlier in the US than the UK but once the UK vaccination programme started making rapid progress in the new year of 2021, gilt yields and gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report. At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.

5.12 HM Treasury imposed **two changes of margins over gilt yields for PWLB rates in 2019/20** without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and **on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates;** the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

5.13 The new margins over gilt yields are as follows: -.

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

5.14 There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

6. Borrowing Outturn for 2020/21

6.1 Details of the loans outstanding at 31 March 2021 are shown below:

Lender	Type and Date Borrowing taken out	Maturity	Interest Rate %	Principal held at 31 March 2020 £'000	Principal held at 31 March 2021 £'000
PWLB – 23 maturity loans	Fixed Interest Rate Borrowed in May 2018	5-19 Years	2.41*	5,490	5,490
PWLB – Annuity	Fixed Interest Rate Borrowed in December 2019	50 Years	3.09	5,100	5,056
PWLB – Annuity	Fixed Interest Rate Borrowed in September 2019	50 Years	1.97	3,977	3,928
Total				**14,567**	**14,474**

*Average interest rate

Repayments

6.2 During 2020/21 the Council repaid interest of £413,783 at an average rate of 2.49%.

Borrowing in advance of need

6.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

Debt rescheduling

6.4 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7. Investment Outturn for 2020/21

7.1 **Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 30 April 2020 (Minute – C86/19). This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

7.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

7.3 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources £'000	31 March 2020	31 March 2021
General Fund Balance	2,010	2,122
Earmarked Reserves	13,998	21,494*
Usable Capital Receipts	3,059	2,848
Provisions	1,611	1,636
Other	405	(6,816)
Total	**21,083**	**21,284**

* Earmarked Reserves temporarily increased due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21. This temporary increase in reserves will reverse back out again in the 2021/22 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

8. Other Issues 2020/21

IFRS 9 fair value of investments

8.1 Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS 9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

9. Outcomes/outputs

9.1 Income from investments this year was £207,288 which is £4,288 higher than the budget of £203,000.

9.2 Income from investments this year was £207,288 which is £4,288 higher than the budget of £203,000 at an average return of 0.13%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 0.05%. Therefore the Council achieved 0.08% return on investments over the benchmark for 20/21.

10. Options available and consideration of risk

10.1 The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating is required, together with a limit of £6m per counterparty. This has resulted in only a small number of institutions in which the Council can invest (see Appendix A).

10.2 The Council's treasury management activities and interest rates are reviewed daily to ensure cash flow is adequately planned with surplus funds being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

10.3 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy will be brought to Members' attention in treasury management update reports.

11. Proposed Way Forward

11.1 The Council's treasury activities and interest rates will continue to be monitored daily and appropriate action taken to mitigate risk whilst optimising investment return where possible.

12. Compliance with Treasury Limits and Prudential Indicators

12.1 During 2020/21 the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2020/21 are detailed and shown in Appendix B.

13. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003
Financial Implications to include reference to value for money	Y	Income from investments this year was £207,288 which is £4,288 higher than the budget of £203,000 at an average return of 0.13%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 0.05%. Therefore the Council achieved 0.08% return on investments over the benchmark for 20/21. Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning.
Risk	Y	The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation. The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.

		The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and Members.
Supporting Corporate Strategy		The income from treasury management supports all the Council's corporate strategy themes.
Climate Change - Carbon / Biodiversity Impact		No direct carbon/biodiversity impact arising from the recommendations.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	None directly arising from this report.
Safeguarding	N	None directly arising from this report.
Community Safety, Crime and Disorder	N	None directly arising from this report.
Health, Safety and Wellbeing	N	None directly arising from this report.
Other implications	N	None directly arising from this report.

Supporting Information

Appendices:

Appendix A – Lending list as at 26 March 2021
Appendix B - Prudential and Treasury Indicators 2020/21

Background Papers:

Annual treasury strategy in advance of the year (Council 30 April 2020 – Minute C86/19)
A mid-year treasury update report (Audit Committee 9 February 2021 – Minute A22/20)

Approval and clearance of report

Process checklist	**Completed**
Portfolio Holder briefed	**Yes**
SLT Rep briefed	**Yes**
Relevant Exec Director sign off (draft)	**Yes**
Data protection issues considered	**Yes**
Accessibility checked	**Yes**

APPENDIX A

Counterparty as at 26th March 2021		Fitch Rating					Moody's Ratings			S&P Ratings			
United Kingdom		Long Term		Short Term	Viability	Support	Long Term		Short Term	Long Term		Short Term	Suggested Duration
AAA Rated and Government Backed Securities	Collateralised LA Deposit*												Y - 60 mths
	Debt Management Office												Y - 60 mths
	Multilateral Development Banks												Y - 60 mths
	Supranationals												Y - 60 mths
	UK Gilts												Y - 60 mths
Banks	Abbey National Treasury Services PLC	NO	A+	F1		1	SB	A1	P-1				R - 6 mths
	Al Rayan Bank PLC	NO					SB	A1	P-1				R - 6 mths
	Bank of Scotland PLC (RFB)	NO	A+	F1	a	5	SB	A1	P-1	NO	A+	A-1	R - 6 mths
	Barclays Bank PLC (NRFB)	NO	A+	F1	a	5	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Barclays Bank UK PLC (RFB)	NO	A+	F1	a	1	NO	A1	P-1	SB	A	A-1	R - 6 mths
	Close Brothers Ltd	NO	A-	F2	a-	5	NO	Aa3	P-1				R - 6 mths
	Clydesdale Bank PLC	NO	A-	F2	bbb+	5	SB	Baa1	P-2	NO	A-	A-2	G - 100 days
	Co-operative Bank PLC (The)	NO	B	B	b-	5	SB	B3	NP				N/C - O mths
	Goldman Sachs International Bank	NO	A+	F1		1	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Handelsbanken Plc	NO	AA	F1+		1				SB	AA-	A-1+	O - 12 mths
	HSBC Bank PLC (NRFB)	NO	AA-	F1+	a	1	SB	A1	P-1	SB	A+	A-1	O - 12 mths
	HSBC UK Bank Plc (RFB)	NO	AA-	F1+	a	1	NO	Aa3	P-1	SB	A+	A-1	O - 12 mths
	Lloyds Bank Corporate Markets Plc (NRFB)	NO	A+	F1		1	SB	A1	P-1	NO	A	A-1	R - 6 mths
	Lloyds Bank Plc (RFB)	NO	A+	F1	a	5	SB	A1	P-1	NO	A+	A-1	R - 6 mths
	National Bank of Kuwait (International) PLC	SB	AA-	F1+		1				SB	A	A-1	O - 12 mths
	NatWest Markets Plc (NRFB)	NO	A+	F1	WD	1	PO	A3	P-2	NO	A-	A-2	G - 100 days
	Santander UK PLC	NO	A+	F1	a	2	SB	A1	P-1	NO	A	A-1	R - 6 mths
	SMBC Bank International PLC	NO	A	F1		1	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Standard Chartered Bank	NO	A+	F1	a	5	SB	A1	P-1	SB	A	A-1	R - 6 mths
Building Societies	Coventry Building Society	NO	A-	F1	a-	5	NO	A2	P-1				R - 6 mths
	Leeds Building Society	NO	A-	F1	a-	5	NO	A3	P-2				G - 100 days
	Nationwide Building Society	NO	A	F1	a	5	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Nottingham Building Society						NO	Baa2	P-2				N/C - O mths
	Principality Building Society	NO	BBB+	F2	bbb+	5	NO	Baa2	P-2				N/C - O mths
	Skipton Building Society	NO	A-	F1	a-	5	SB	Baa1	P-2				G - 100 days
	West Bromwich Building Society						NO	Ba3	NP				N/C - O mths
	Yorkshire Building Society	NO	A-	F1	a-	5	NO	A3	P-2				G - 100 days
Nationalised and Part Nationalised Banks	National Westminster Bank PLC (RFB)	NO	A+	F1	a	5	SB	A1	P-1	NO	A	A-1	B - 12 mths
	Royal Bank of Scotland Group Plc (RFB)	NO	A+	F1	a	5	SB	A1	P-1	NO	A	A-1	B - 12 mths

Key

Watches and Outlooks		Duration	
SB	Stable Outlook	Yellow - Y	60 Months
NO	Negative Outlook	Blue - B	12 Months
NW	Negative Watch	Orange - O	12 Months
PO	Positive Outlook	Red - R	6 Months
PW	Positive Watch	Green - G	100 Days
EO	Evolving Outlook		
EW	Evolving Watch		

APPENDIX B

PRUDENTIAL AND TREASURY INDICATORS 2020/21

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The tables below show the actual capital expenditure and how this was financed.

Capital Expenditure	**2019/20 Actual £000**	**2020/21 Estimate £000**	**2020/21 Actual £000**
General Fund services	4,691	8,482	5,645
Community Housing	-	5,400	-
Capital investments*	4,996	15,370	-
TOTAL	**9,687**	**29,252**	**5,645**

*Capital investments relate to areas such as capital expenditure on investment properties. In 2020/21 there was no capital expenditure spent on investment properties. The estimate for 2020/21 included possible headroom for expenditure on further investment properties within the Council's Investment Property portfolio and community housing schemes.

Capital Expenditure and Financing	2019/20 Actual £000	2020/21 Estimate £000	2020/21 Actual £000
Capital Expenditure	9,687	29,252	5,645
Financed by:			
External sources	(2,261)	(1,285)	(1,400)
Own resources	(2,189)	(4,557)	(2,393)
Unfinanced capital expenditure	**5,237**	**23,410**	**1,852**

NB. Please note that the estimate for 2020/21 represents the approved capital programme for that year. However, actual capital spend includes not only expenditure on projects within that capital programme, but also expenditure on schemes carried forward from previous capital programmes.

The Capital expenditure estimate for 2020/21 reflects the recommendations within the Commercial Investment Strategy.

The Council's Borrowing Need (the Capital Financing Requirement)

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

CFR	2019/20 Actual £000	2020/21 Estimate £000	2020/21 Actual £000
Opening balance	6,291	11,387	11,494
Add unfinanced capital expenditure (as above)	5,237	23,410	1,852
Less MRP/VRP	(34)	(344)	(344)
Closing balance	**11,494**	**34,453**	**13,002**

The estimate for 2020/21 included possible headroom for expenditure on further Investment properties within the Council's Investment Property portfolio and community housing schemes.

The Council's Gross Debt and the Capital Financing Requirement

Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the indicator below, the debt is slightly higher than the CFR by £1.47m in 2020/21. This is only a short term position as this will finance future capital expenditure such as Dartmouth Health Hub in 2021/22, which will be incurred within the time frame of the forward approved Capital Financing Requirement estimates.

	2019/20 Actual £000	2020/21 Estimate £000	2020/21 Actual £000
Debt	14,567	34,015	14,474
Capital Financing Requirement	11,494	34,453	13,002
Over/(under) funding of CFR	3,073	(438)	1,472

The estimate for 2020/21 included possible headroom for expenditure on further Investment properties within the Council's Investment Property portfolio and community housing schemes.

AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans.

These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

The financing costs were increased in the 2020/21 estimate to reflect the headroom within the Commercial Investment Strategy, and this therefore increased this indicator.

	2019/20 Actual	2020/21 Estimate	2020/21 Actual
Financing costs (£)	(165,967)	1,074,067	550,144
Proportion of net revenue stream	(1.9%)	11.4%	5.85%

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

Operational Boundary	2019/20	2020/21
	£	£
Borrowing	70,000,000	70,000,000
Other long term liabilities	-	-
Total	70,000,000	70,000,000

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

Authorised limit	2019/20	2020/21
	£	£
Borrowing	75,000,000	75,000,000
Other long term liabilities	-	-
Total	75,000,000	75,000,000

South Hams District Council's current level of borrowing as at 31 March 2021 was £14.474 million.

As part of the Budget Setting process, Members approved an overall Borrowing Limit of £75million.

The maturity analysis of fixed rate borrowing is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

Refinancing rate risk indicator	Approved minimum limits	Approved maximum limits	Actual 31 March 2020		Actual 31 March 2021	
	%	%	£million	%	£million	%
Less than 1 year	0%	10%	0.092	0.6	0.094	0.6
Between 1 and 2 years	0%	30%	0.094	0.7	0.096	0.7
Between 2 and 5 years	0%	50%	1.016	7.0	1.384	9.6
Between 5 and 10 years	0%	75%	2.347	16.1	2.361	16.3
More than 10 years	0%	100%	11.017	75.6	10.539	72.8
Total			**14.566**	**100.0**	**14.474**	**100.0**

Proposed Workplan for the Audit Committee for the 2021/22 financial year

Committee Meeting	Proposed workplan/timetable for Audit Committee 2021/22
28th October 2021	i) Grant Thornton Report: Accounts – the Audit Findings for South Hams District Council. ii) Grant Thornton Report: Auditor's Annual Report for 2020/21 iii) Audited Annual Statement of Accounts 2020/21 iv) Annual Treasury Management Report for 2020/21
9th December 2021	i) Auditor Appointment – Invitation from Public Sector Auditor Appointment (PSAA) to become an opted-in authority. ii) Update on Progress on the 2021/22 Internal Audit Plan; iii) Strategic Risk update iv) Strategic Debt Update v) Treasury Management Mid-year report 2021/22 vi) Investment Property Monitoring Report; vii) Pensions presentation by Devon County Council (either at this meeting or the 10th March meeting – date to be confirmed)
10th March 2022	i) Grant Thornton - External Audit Plan 2021/22 ii) Grant Thornton Update report; iii) Grant Thornton - Informing the risk assessment for 2021/22 (Planning for the 2021/22 Accounts) iv) 2022/23 Internal Audit Plan; v) Draft Budget Book 2022/23; vi) Cost Methodology for Shared Services 2021/22 vii) Annual Review of Council Constitution; viii) Update on Progress on the 2021/22 Internal Audit Plan; ix) Strategic Risk update x) Strategic Debt update xi) Update on the Whistle-Blowing Policy

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